Ambev SA ABEV (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
6.37 USD	7.00 USD	4.20 USD	10.85 USD	High	Wide	Positive	Exemplary	A	Beverages - Alcoholic

The near term looks flat, but Ambev is poised for above-global industry growth and margin expansion.

Updated Forecasts and Estimates from 07 Jan 2015

Philip Gorham, CFA, FRM
Senior Analyst
philip.gorham@morningstar.com
+31 (0) 20 560 2962

The primary analyst covering this company does not own its stock.

Research as of 07 Jan 2015
Estimates as of 07 Jan 2015
Pricing data through 19 Feb 2015
Rating updated as of 19 Feb 2015

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 19 Jun 2014

Ambev still has opportunities to increase volume in its core markets of Latin America, but we believe its medium-term revenue growth trajectory will fade from the double-digit compound annual growth rate achieved over the past four years to a mid- to high-single-digit rate. We estimate the correlation between per capita beer consumption and per capita GDP to be 0.97 in Latin America between 2000 and 2013. This leaves Ambev's volume sensitive to the region's GDP growth, which in turn depends on global demand for commodities. The underlying assumption in our valuation is that demand for commodities will fail to hit the peaks of the last cycle and low- to mid-single-digit GDP growth (and therefore beer volume growth) is a more realistic assumption for a normalized environment.

Nevertheless, Ambev's growth profile is superior to its global competitors'. Beer markets in Latin America are localized monopolies, dominated usually by Ambev or SABMiller. Ambev controls the market in Argentina, with 75% share, Bolivia (97%), Brazil (63%), Paraguay (90%), and Uruguay (97%). Its largest market is Brazil, which represents 65% of total beverage revenue and 71% of adjusted EBIT. Its EBIT margins in Brazil have been at or above 45% since 2010, among the highest in the beer industry. Brazil also offers some opportunities for consumption increases. According to the 2012 Kirin Institute of Food and Lifestyle Report, per capita beer consumption in Brazil is 68.3 liters per year, well behind the 85.5 liters per year of Venezuela, with which it shares a border. Brazil ranks just 24th in global per capita consumption, but we think the market is close to maturity as many developed countries have similar levels of consumption, and we would look to companies with exposure to early-stage developing economies for the fastest growth opportunity in brewing.

Even as volume slows, we believe an opportunity for revenue growth lies in the premiumization of the market. Currently, the premium beer segment makes up just 5% of volume in Brazil, versus almost 15% in Argentina and Chile, and we expect a strong mix effect to become a key driver of revenue growth for Ambev in the medium term.

Vital Statistics

Market Cap (USD Mil)	99,834
52-Week High (USD)	8.67
52-Week Low (USD)	5.56
52-Week Total Return %	-1.3
YTD Total Return %	3.7
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	6.4
5-Yr Forward EPS CAGR %	20.9
Price/Fair Value	0.91

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	25.3	33.4	*22.8*	*19.3*
EV/EBITDA	—	—	*16.1*	*14.5*
EV/EBIT	—	—	*18.8*	*16.8*
Free Cash Flow Yield %	—	—	*3.0*	*4.5*
Dividend Yield %	—	—	*3.3*	*2.7*

Financial Summary and Forecasts (BRL Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	32,231	34,791	*37,908*	*39,477*
Revenue YoY %	18.8	7.9	*9.0*	*4.1*
EBIT	12,142	13,301	*14,895*	*16,679*
EBIT YoY %	18.7	9.5	*12.0*	*12.0*
Net Income, Adjusted	8,789	7,461	*11,821*	*14,088*
Net Income YoY %	22.7	-15.1	*58.4*	*19.2*
Diluted EPS	0.33	0.22	*0.28*	*0.33*
Diluted EPS YoY %	22.6	-34.9	*28.5*	*19.2*
Free Cash Flow	6,071	7,551	*9,538*	*11,782*
Free Cash Flow YoY %	-20.4	24.4	*26.3*	*23.5*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Ambev is the largest brewer in Latin America by sales volume and the fourth-largest beer producer in the world. It produces, distributes, and sells beer and PepsiCo products in Brazil and other Latin American countries. It also owns Argentina's largest brewer, Quinsa. Ambev was formed in 1999 through the merger of Brazil's two largest beverage firms, Brahma and Antarctica. In 2004, Ambev merged with Canadian brewer Labatt, giving Interbrew (now Anheuser-Busch InBev) a controlling interest.

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Morningstar Analysis

Near-Term Looks Flat, but Market Is Missing Ambev's Long-term Growth and Margin Opportunities 07 Jan 2015

Ambev is among our top picks in our consumer defensive coverage universe, both for the quality of the business and because of its attractive valuation. The firm's wide economic moat is driven by its dominant market shares in Latin America, and Ambev's strong competitive positioning is reflected in its best-in-class EBIT margins. Recent demand weakness and a softening of sentiment on Brazil have weighed on the stock, and we think long-term investors have an opportunity to begin building a position in one of the strongest businesses in our consumer defensive universe.

We believe Ambev has a wide economic moat derived from two sources: a cost advantage and its intangible assets. The firm is the No. 1 player in several markets and holds monopolistic value market shares in Brazil (68%), Argentina (75%), Bolivia (97%), Paraguay (90%), and Uruguay (98%). This domination of its core markets reduces manufacturing complexity, leverages the firm's high-fixed-cost base, and lowers the average cost of production. Ambev generates excess returns on invested capital and industry-leading EBIT margins of close to 40% on a consistent basis. Ambev owns two of the world's largest beer brands by volume: Brahma and Skol (in South America only). Brahma is a premium brand, where brand loyalty is higher than the mainstream and craft beer segments. Even in the mainstream category, Skol has very strong brand equity among Latin American consumers and is the seventh-largest beer brand by global volume.

Ambev has grown its revenues at a CAGR of 10% since 2008, but in 2013 and 2014, revenue growth has slowed considerably along with the Brazilian economy, although the FIFA World Cup provided a temporary boost this year. With the Brazilian government looking to raise revenues, tax increases on alcohol could be on the way, and the near-term outlook for Ambev looks rocky. We think these concerns are more than priced in to Ambev's stock, however, and we see upside for patient investors.

Although we acknowledge that investors' near-term concerns are well founded, we believe the current valuation of the business overlooks the long-term volume growth potential of the business. Through the Brahma brand, Ambev has a strong presence in premium categories in markets in which consumers are premiumising. We estimate that Ambev's long-term volume growth opportunity, driven by population growth, wealth creation and premiumisation, to be 2.8% annually. This is well above the global industry growth rate of around 1%, and along with Heineken, one of the highest secular growth rates in our brewer coverage universe. We estimate that for every 1% growth in volumes, brewers' average variable cost (raw material expense) falls by 1.1%, and at Ambev's theoretical volume growth rate of 2.8%, this should drive a theoretical annual gross margin improvement of 29 basis points. With this secular growth driver, strong pricing power and a positive mix effect through premiumisation, we believe Ambev can achieve mid-to-high single-digit revenue growth and sustain EBIT margins above 40% in the medium to long term, and that this is not reflected in Ambev's current market price.

Valuation, Growth and Profitability 06 Jan 2015

We are lowering our fair value estimate to $7 per ADR from $8 as a result of the recent depreciation of the Brazilian real against the U.S. dollar. We assume a dollar/real exchange rate of 2.71, the spot rate on Jan. 6. Our valuation implies a fiscal 2015 price/earnings multiple of 24 times (21 times after adjusting for the net cash position), a 2015 enterprise value/EBITDA multiple of 16 times, and a free cash flow yield of 4.0%. These implied multiples are slightly richer than the peer group due to Ambev's superior growth profile.

For the second consecutive quarter, we tweaked our 2014 revenue forecast down slightly to 9% from 10% in light of the poor quarter in Brazil. Thereafter, we fade top-line growth to 6.1% by 2018, a level below the 10% average growth rate over the past five years. Beer volume in South

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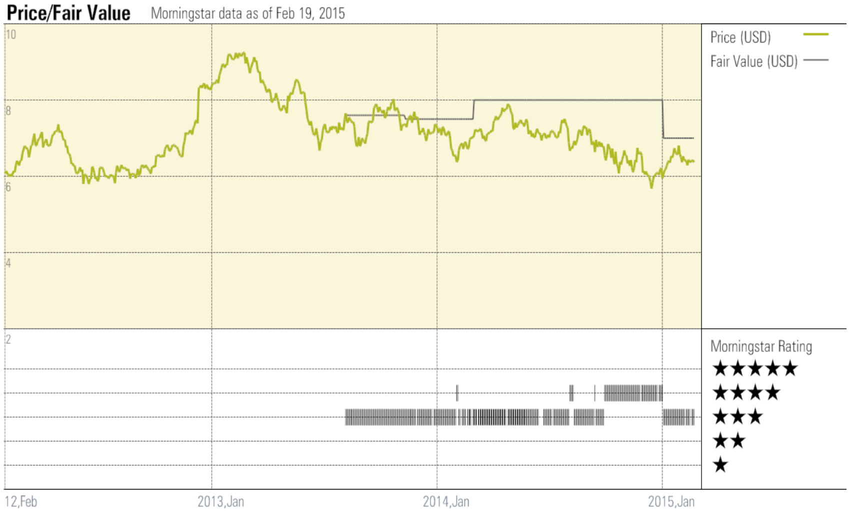
Price/Fair Value Morningstar data as of Feb 19, 2015



America is highly correlated with GDP per capita, particularly in low-income markets, and we believe lower commodity inflation (led by lower demand from China) could lead to slightly lower volume and pricing inflation rates over the next few years. Our 6% medium-term revenue growth estimate is derived primarily from volume growth of around 2% and pricing on the order of 4%.

Although we believe volume growth is likely to be more modest going forward, low-single-digit shipment growth will probably be enough to generate gross margin expansion. Despite a small increase in cost of sales in the first quarter, we expect Ambev to benefit from modest input cost deflation (particularly aluminium) throughout the remainder of 2014, and we forecast cost of goods sold as a percentage of revenue to be flat in 2014. In the medium term, we forecast 80 basis points of gross margin expansion due to growing volume. This should trickle down to the operating profit line, particularly if the firm is able to squeeze more overhead out of the business. We assume a 40% operating margin by 2018, a best-in-class level of profitability, but slightly below peak margins in 2011 and 2012.

Our weighted average cost of capital assumption is 9.0%, around 70 basis points higher than the rest of the group, in part because of a higher cost of debt, and also because we assume a higher cost of equity due to Ambev's exposure to more volatile economies and lack of geographic exposure.

Scenario Analysis

Global GDP per capita growth--and consequently demand for commodities from Latin America--is the key driver in our scenario analysis, and we vary our revenue and gross margin forecasts based on variations on our core assumptions for global GDP growth. Using per capita GDP growth estimates to 2020 from the U.S. Department of Agriculture, our base-case scenario assumes a 2.6% GDP compound annual growth rate in Brazil, with most other markets growing between 2% and 3%. This implies that the double-digit Chinese GDP growth in recent years is not sustainable, and that China GDP grows at a more moderate 5% per year. In our bull case, we assume that China returns to its recent double-digit growth rate, stimulating strong demand for commodities and boosting Latin America GDP to the mid-single-digit range. This allows Ambev to increase its top line by 10% throughout our five-year forecast period, with equal contributions from volume and pricing, and it adds around 100 basis points to the gross margin by 2018. The 41.0% operating margin achieved in the final year of our forecast period is 50 basis points above peak margins achieved in 2012 and would require execution on procurement savings from greater volume. This scenario results in the buildup of an extra BRL 4 billion in cash on the balance sheet, which could further support marketing spending, acquisitions, or returning cash to shareholders. Our valuation under this scenario is $8 per ADR, or 26.1 times our 2015 earnings per share estimate and 14% above our fair value estimate.

Our bear case involves a weaker-than-expected rebound in the global economy. Below-5% GDP growth in China is likely

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to damp demand for commodities from Latin America, and in our bear case, we assume Latin American GDP per capita growth, and consequently beer consumption growth, in the low single digits. With around 2.5-3.0 percentage points from pricing, Ambev increases its top line by 4% on average in our bear case, leading to a flat gross margin at 33% throughout our forecast period. Our valuation in this scenario is $6 per ADR, or 21.7 times our bear-case 2015 EPS estimate and 14% below our fair value estimate.

Economic Moat

We believe Ambev has a wide economic moat derived from two sources: a material cost advantage over its peers and its intangible assets. The largest of the Latin American brewers by total beverage volume and the fourth largest in the world, Ambev sold 165 million hectoliters of beverages in 2013. Although this volume puts Ambev at the lower end of the spectrum among the leading five brewers, its concentration of scale across a relatively small number of markets gives Ambev superior economies of scale. The firm is the number-one player in several markets and holds monopolylike value market shares in Brazil (68%), Argentina (75%), Bolivia (97%), Paraguay (90%), and Uruguay (98%). This domination of its core markets reduces manufacturing complexity, leverages the firm's high-fixed-cost base, and lowers the average cost of production.

Ambev owns two of the world's largest beer brands by volume: Brahma and Skol (in South America only). Brahma is a premium brand, where brand loyalty is higher than the mainstream and craft beer segments. Even in the mainstream category, Skol has very strong brand equity among Latin American consumers and is the seventh-largest beer brand by global volume.

Moat Trend

We believe Ambev's moat trend is positive because the secular growth trajectory of the industries in which the firm operates is likely to strengthen its cost advantage over time. We estimate that over the past seven years, for every 1% increase in volume, Ambev's average raw material expense has fallen 1.1%, adjusted for commodity cost inflation, as its procurement pricing power has grown alongside its volume. We expect this to be a strong tailwind for Ambev. Euromonitor forecasts a volume compound annual growth rate of 3.0% to 2018 in Brazil. This growth is likely to be driven by the premium (up 8%) and midpriced segments (up 3%) as consumers trade up and climb the pricing ladder. With more than 90% of its 2013 volume in these two categories, Ambev is one of the best-positioned alcoholic beverage companies to exploit the volume growth opportunities in its core markets. Assuming a stable market share (its share has hovered around 69% in Brazil over the past five years), we believe Ambev faces a secular volume growth opportunity of almost 3% per year in the long term, the highest in our alcoholic beverage coverage universe. Although cyclical headwinds and commodity inflation are likely to detract from the firm's volume growth in the near-term, we believe this structural growth rate, when achieved, should deliver an average of 40 basis points of annual gross margin expansion over the medium term, all else equal.

This margin benefit is reflected in rising returns on invested capital during our five-year explicit forecast period. Although near-term returns are likely to be depressed by the slight cyclical contraction in the Brazilian beer market, as volume recovers to its natural growth rate we expect returns on invested capital (with goodwill excluded and excess cash included in invested capital) to rise from around 25% over the past three years to the mid- to high 30s in the medium term. This would represent best-in-class returns on capital, reflecting Ambev's position as the most profitable brewer in the world on a consolidated basis.

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Bulls Say/Bears Say

Bulls Say

- With operating margins consistently above 40%, Ambev is more profitable even than its larger competitors, thanks to its highly concentrated market shares. Brazil is the firm's highest-margin market.
- Per capita consumption in Brazil and Argentina is lower than most mature markets. Long-term economic growth in these areas should increase consumption and Ambev's mix of revenue coming from higher-margin premium brands.
- A long-term trend toward premiumization should provide Ambev with both a positive mix tailwind and share gains by its premium brands.

Bears Say

- Canada (10% of 2013 revenue and 8% of EBIT) offers neither growth nor accretion to the profitability of the firm. Volume has been falling in the low single digits consistently, and it is one of Ambev's lowest-margin markets.
- Governments may look to increase regulations or taxation on brewers. Punitive actions taken by governments could be detrimental to Ambev's volume growth.
- Ambev distributes Pepsi products in several countries (including Brazil and Argentina), where Coca-Cola dominates the soft-drink market. Coke is well positioned to defend its market share in Latin America.

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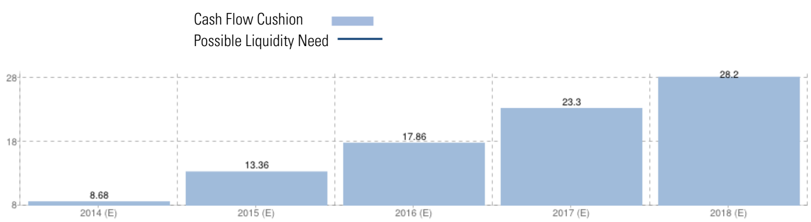
Credit Analysis

Five Year Adjusted Cash Flow Forecast (BRL Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	11,286	5,746	10,311	13,188	16,042
Adjusted Available Cash Flow	866	4,934	5,181	5,372	6,302
Total Cash Available before Debt Service	12,152	10,681	15,491	18,560	22,344
Principal Payments	—	-936	-600	-600	-600
Interest Payments	-1,009	467	28	15	-15
Other Cash Obligations and Commitments	-392	-331	-296	-211	-178
Total Cash Obligations and Commitments	-1,401	-800	-868	-797	-792

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	BRL Millions	% of Commitments
Beginning Cash Balance	11,286	242.4
Sum of 5-Year Adjusted Free Cash Flow	22,656	486.5
Sum of Cash and 5-Year Cash Generation	33,941	728.9
Revolver Availability	8,000	171.8
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	41,941	900.7
Sum of 5-Year Cash Commitments	-4,657	—

Credit Rating Pillars–Peer Group Comparison

	ABEV	Sector	Universe
Business Risk	3	4.0	5.1
Cash Flow Cushion	3	6.5	6.0
Solvency Score	2	5.1	4.7
Distance to Default	—	2.8	3.6
Credit Rating	A	A	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

Ambev has the healthiest financial position of the brewing peer group. The firm slashed its debt/EBITDA ratio from 0.77 in 2008 to 0.17 by the end of 2013, and it has ended the year in a net cash position in each of the past three years. Ambev's competitors all have much more leveraged balance sheets, with debt/EBITDA ratios of at least 2.0, although on an interest coverage basis, Ambev is much more in line with the group. Despite its healthier balance sheet, Ambev's EBITDA/interest expense of 6.3 times is in line with Heineken and SABMiller because of the higher interest rate it pays on its debt. We estimate Ambev's cost of debt to be on the order of 6.0%, versus 4.0% for Anheuser-Busch InBev. For this reason, we do not expect the firm to releverage its balance sheet, but management could find uses for the BRL 11.3 billion in cash on its balance sheet at the end of 2013. We would approve of efforts to consolidate its leading position in Latin America with bolt-on acquisitions at reasonable prices. With its free cash flow run rate of around BRL 10 billion, we expect further cash buildup over the next five years. Given that the free float is limited by the large holdings of AB InBev and FAHZ, we believe the cash will be used in either a special dividend or acquisitions. In our discounted cash flow model, we assume aggressive dividend growth of more than 20%.

Ambev recently completed a stock swap merger resulting in a single share class that trades in Brazil and a single ADR that trades in New York. This structure replaced the firm's prior organization that had a combination of preferred and common shares that traded in both Brazil and the United States.

Enterprise Risk

With almost 90% of its revenue coming from South and Central America, Ambev has limited geographic diversification relative to its large-cap brewing peers, including Anheuser-Busch InBev, SABMiller, and Heineken.

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Credit Analysis

Latin America presents considerable macroeconomic, political, and foreign exchange risks, although some of Ambev's markets such as Chile and Brazil are some of the more stable countries in the region. Volume is highly correlated with GDP per capita in Ambev's core markets, particularly in low-income countries, and in turn, GDP is correlated with commodity prices in Latin America, a region rich in basic materials. Therefore, Ambev's revenue is sensitive to the global economy and, in particular, commodity price inflation or deflation. Excise tax increases could disrupt Ambev's ability to take pricing over short time horizons. The Brazilian government stepped away from a plan to increase excise taxes ahead of the FIFA World Cup last year, but we think it is likely that taxes could be raised again when demand rebounds.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Virtus Emerging Markets Opportunities Fd	0.31	3.56	8,496	31 Dec 2014
Oppenheimer Developing Markets Fund	0.28	0.70	—	31 Dec 2014
Vanguard Emerging Markets Stock Idx Fund	0.22	0.37	-817	31 Jan 2015
Vontobel Emerging Markets Eq	0.19	3.40	2,555	31 Oct 2014
Lazard Emerging Markets Equity Portfolio	0.20	1.42	6,018	31 Dec 2014
Concentrated Holders				
BNMBRA	—	11.97	—	31 Jan 2015
KODEX Brazil	—	11.00	—	30 Nov 2014
BRTRAC 10	—	9.85	-18	31 Jan 2015
MiraeAsset Indexro BRICs Master Equity	—	9.19	0	30 Sep 2014
TIGER Latin	—	8.42	—	30 Nov 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Eugénie Patri Sébastien S.A.	—	—	11,258,760	18 Dec 2014
Brc S.a.r.l.	—	—	11,258,760	18 Dec 2014
Viking Global Investors LP	—	1.22	42,891	31 Dec 2014
Vontobel Asset Management, Inc.	—	7.66	41,292	30 Sep 2014
OppenheimerFunds, Inc.	—	0.48	23,382	31 Dec 2014
Top 5 Sellers				
J.P. Morgan Investment Management Inc.	0.11	0.05	-22,385	31 Dec 2014
Schroder Investment Management Ltd.	0.19	0.65	-9,592	30 Sep 2014
Canada Pension Plan Investment Board	0.04	0.14	-9,491	31 Dec 2014
Thornburg Investment Management, Inc.	0.07	0.34	-5,932	31 Dec 2014
Principal Global Investors, LLC	0.02	0.04	-4,501	31 Dec 2014

Management 06 Jan 2015

Ambev's management team has been exemplary stewards of shareholders' capital. Through a series of acquisitions and a focus on cost cuts, the company has fortified its wide economic moat and generated impressive returns to the company's shareholders. Over the past decade, Ambev's shareholders have enjoyed total returns of 25% on an annualized basis, and with results like this, we are not surprised that CEO Joao Mauricio Giffoni de Castro Neves was tapped to lead Anheuser-Busch InBev's North American operations beginning Jan. 1. He is succeeded by Bernardo Pinto Paiva, formerly the chief sales officer of ABI. Management sets aggressive sales and volume goals, and each year managers go through a zero-based budgeting practice that diligently works to squeeze out unnecessary costs. Most of Ambev's senior managers have worked at the firm or one of its acquired companies since the 1990s.

Nevertheless, Ambev is still controlled by AB InBev (61.9%) and FAHZ (9.6%), and as such, minority shareholders have little say in the running of the company. The remaining 28.5% is owned by the public, with 19.7% trading on the Brazilian Bovespa and 8.8% of the outstanding shares trading at the NYSE. A shareholders' agreement in place until 2019 gives FAHZ a veto right in matters of dividends, investments, acquisitions, and new debt issuance. Controlling shareholders are able to elect the majority of members of the board of directors and determine the outcome of other major corporate actions.

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Weak Third Quarter for Ambev; Look to Brazil as the Catalyst for this Undervalued Stock 31 Oct 2014

Ambev is on track to meet our earnings expectations for fiscal 2014, but revenue growth fell short of our 10% forecast for the full year, and we think this tells the quarter's story. A sharp decline in the Brazil beer market also weighed on profitability, but this masked a quarter of solid execution elsewhere. We will likely lower our full-year revenue forecast for the Brazil Beer segment, but we doubt this will impact our BRL 19 fair value estimate. We are also reiterating our wide economic moat rating, as there was plenty of evidence, despite the weak volumes in Brazil, that Ambev still possesses competitive advantages.

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Analyst Notes

We had expected a third quarter slowdown in Brazil. The hangover from the FIFA World Cup, a tax increase in September, and slowing consumer spending were significant headwinds going into the quarter. However, the size of the slowdown (the industry fell by 1.2% following a mid single digit increase in the second quarter) took us by surprise. Nevertheless, Ambev's 0.4% decline in total Brazil volumes outperformed the industry, and the firm increased its retail volume share by 100 basis points (and 60 basis points sequentially). With several commodity prices at multi-year lows, we expect weakness in Brazil to continue in the near term. Volume growth is volatile in Latin America, but we forecast 2% to 3% medium term growth in most LatAm markets, well below the double-digit growth achieved in Ambev's peak years, but reflective of the positive per capita GDP growth we expect from the region.

Further evidence of Ambev's strong execution and competitive advantages came in Central America and Latin America South. Despite continued weakness in Argentina, the segment's gross margin expanded by 310 basis points due to strong pricing, while profitability improvements also came in the HILA-ex segment. Ambev's ability to increase its revenue per hectolitre in a period of low consumer confidence, is a sign that its brand strength remains intact.

Nevertheless, Ambev's consolidated operating margin contracted by 260 basis points, led by Brazil, and we expect investors' near-term focus to remain on Brazil. A rebound in the industry to volume growth closer to our medium-term forecast could be an upside catalyst for the stock, which we regard as being undervalued on a long-term basis. We recommend investors that can accept the risk of continued weakness in Latin America to look to Ambev for value in the global brewing space.

Ambev SA ABEV (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
6.37 USD	7.00 USD	4.20 USD	10.85 USD	High	Wide	Positive	Exemplary	A	Beverages - Alcoholic

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	2015	5-Year Proj. CAGR
Revenue	*11.3*	7.5	18.8	7.9	*9.0*	*4.1*	*6.4*
EBIT	*15.6*	18.9	18.7	9.5	*12.0*	*12.0*	*9.1*
EBITDA	*14.8*	14.9	19.0	10.7	*12.7*	*10.9*	*8.9*
Net Income	*6.7*	16.6	22.7	-15.1	*58.4*	*19.2*	*17.8*
Diluted EPS	*-33.5*	-63.2	22.6	-34.9	*28.5*	*19.2*	*20.9*
Earnings Before Interest, after Tax	*13.2*	20.1	30.3	-7.4	*31.3*	*15.6*	*13.4*
Free Cash Flow	*20.1*	74.9	-20.4	24.4	*26.3*	*23.5*	*15.4*

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Operating Margin %	*37.9*	37.7	37.7	38.2	*39.3*	*42.3*	*42.1*
EBITDA Margin %	*43.5*	43.1	43.2	44.2	*45.8*	*48.8*	*48.5*
Net Margin %	*25.0*	26.4	27.3	21.4	*31.2*	*35.7*	*34.6*
Free Cash Flow Margin %	*22.9*	28.1	18.8	21.7	*25.2*	*29.8*	*29.9*
ROIC %	*24.6*	24.7	29.9	19.4	*27.0*	*27.4*	*27.6*
Adjusted ROIC %	*24.6*	24.7	29.9	19.4	*26.4*	*29.8*	*32.5*
Return on Assets %	*15.3*	16.1	17.5	12.2	*17.4*	*20.0*	*18.9*
Return on Equity %	*27.3*	28.7	32.3	20.8	*28.4*	*32.3*	*30.1*

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	*0.10*	0.14	0.10	0.06	*0.06*	*0.05*	*0.04*
Total Debt/EBITDA	*0.26*	0.35	0.23	0.19	*0.15*	*0.12*	*0.11*
EBITDA/Interest Expense	*8.36*	9.47	9.43	6.17	*17.20*	*-41.19*	*-131.46*

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	—	0.98	—	—
Price/Earnings	25.3	33.4	*22.8*	*19.3*
EV/EBITDA	—	—	*16.1*	*14.5*
EV/EBIT	—	—	*18.8*	*16.8*
Free Cash Flow Yield %	—	—	*3.0*	*4.5*
Dividend Yield %	—	—	*3.3*	*2.7*

Key Valuation Drivers

Cost of Equity %	11.0
Pre-Tax Cost of Debt %	6.0
Weighted Average Cost of Capital %	10.0
Long-Run Tax Rate %	28.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	12.0
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	BRL Mil	Firm Value (%)	Per Share Value
Present Value Stage I	47,323	22.3	3.69
Present Value Stage II	102,226	48.2	7.97
Present Value Stage III	62,558	29.5	4.88
Total Firm Value	**212,108**	**100.0**	**16.54**
Cash and Equivalents	11,286	—	0.88
Debt	-2,894	—	-0.23
Preferred Stock	—	—	—
Other Adjustments	-636	—	-0.05
Equity Value	**219,863**	**—**	**17.15**
Projected Diluted Shares	12,823		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Ambev SA ABEV (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
6.37 USD	7.00 USD	4.20 USD	10.85 USD	High	Wide	Positive	Exemplary	A	Beverages - Alcoholic

Morningstar Analyst Forecasts

Income Statement (BRL Mil)

Fiscal Year Ends in December

				Forecast	
	2011	2012	2013	*2014*	*2015*
Revenue	**27,127**	**32,231**	**34,791**	***37,908***	***39,477***
Cost of Goods Sold	8,793	10,292	11,398	*12,949*	*12,929*
Gross Profit	**18,333**	**21,940**	**23,394**	***24,959***	***26,548***
Selling, General & Administrative Expenses	7,432	8,893	9,762	*8,937*	*8,488*
Other Operating Expense (Income)	-785	-864	-1,761	*-1,328*	*-1,184*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	1,455	1,769	2,092	*2,455*	*2,566*
Operating Income (ex charges)	**10,232**	**12,142**	**13,301**	***14,895***	***16,679***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**10,232**	**12,142**	**13,301**	***14,895***	***16,679***
Interest Expense	1,234	1,474	2,496	*1,009*	*-467*
Interest Income	766	662	933	*389*	*525*
Pre-Tax Income	**9,764**	**11,329**	**11,737**	***14,275***	***17,671***
Income Tax Expense	2,522	2,405	2,458	*2,156*	*3,181*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-79	-135	-1,819	*-298*	*-403*
(Preferred Dividends)	—	—	—	—	—
Net Income	**7,163**	**8,789**	**7,461**	***11,821***	***14,088***
Weighted Average Diluted Shares Outstanding	9,833	9,840	12,823	*15,808*	*15,808*
Diluted Earnings Per Share	**0.73**	**0.89**	**0.58**	***0.75***	***0.89***
Adjusted Net Income	7,163	8,789	7,461	*11,821*	*14,088*
Diluted Earnings Per Share (Adjusted)	**0.73**	**0.89**	**0.58**	***0.75***	***0.89***
Dividends Per Common Share	0.21	0.20	0.21	*0.22*	*0.18*
EBITDA	**11,686**	**13,911**	**15,393**	***17,350***	***19,245***
Adjusted EBITDA	**11,686**	**13,911**	**15,393**	***17,350***	***19,245***

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
6.37 USD	7.00 USD	4.20 USD	10.85 USD	High	Wide	Positive	Exemplary	A	Beverages - Alcoholic

Morningstar Analyst Forecasts

Balance Sheet (BRL Mil)

Fiscal Year Ends in December	2011	2012	2013	*Forecast* 2014	*Forecast* 2015
Cash and Equivalents	8,076	8,926	11,286	*5,746*	*10,311*
Investments	—	—	—	—	—
Accounts Receivable	2,001	2,468	2,927	*3,088*	*3,773*
Inventory	2,239	2,466	2,796	*3,112*	*3,244*
Deferred Tax Assets (Current)	291	115	656	*724*	*755*
Other Short Term Assets	2,072	2,281	2,805	*3,301*	*3,419*
Current Assets	**14,679**	**16,256**	**20,470**	***15,970***	***21,501***
Net Property Plant, and Equipment	9,265	11,412	13,938	*15,905*	*17,287*
Goodwill	17,454	19,972	27,021	*26,923*	*26,923*
Other Intangibles	1,763	2,935	3,214	*3,214*	*3,214*
Deferred Tax Assets (Long-Term)	1,447	1,419	1,647	*2,140*	*2,140*
Other Long-Term Operating Assets	1,531	2,166	2,385	*2,793*	*2,908*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**46,139**	**54,160**	**68,674**	***66,945***	***73,973***
Accounts Payable	6,114	6,563	7,925	*8,684*	*9,054*
Short-Term Debt	2,224	838	1,041	*936*	*600*
Deferred Tax Liabilities (Current)	794	973	888	*965*	*1,006*
Other Short-Term Liabilities	5,276	7,145	7,327	*6,754*	*7,042*
Current Liabilities	**14,408**	**15,519**	**17,181**	***17,338***	***17,702***
Long-Term Debt	1,890	2,306	1,854	*1,685*	*1,685*
Deferred Tax Liabilities (Long-Term)	735	1,048	2,096	*1,701*	*1,701*
Other Long-Term Operating Liabilities	3,278	5,363	3,547	*4,533*	*4,664*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**20,311**	**24,236**	**24,677**	***25,257***	***25,753***
Preferred Stock	—	—	—	—	—
Common Stock	8,304	12,187	57,001	*57,001*	*57,001*
Additional Paid-in Capital	—	—	—	—	—
Retained Earnings (Deficit)	—	—	—	*2,424*	*8,780*
(Treasury Stock)	—	—	—	*-1*	*-1*
Other Equity	17,307	16,676	-14,162	*-19,009*	*-19,009*
Shareholder's Equity	**25,611**	**28,864**	**42,839**	***40,414***	***46,770***
Minority Interest	218	1,060	1,159	*1,273*	*1,450*
Total Equity	**25,829**	**29,924**	**43,997**	***41,687***	***48,220***

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
6.37 USD	7.00 USD	4.20 USD	10.85 USD	High	Wide	Positive	Exemplary	A	Beverages - Alcoholic

Morningstar Analyst Forecasts

Cash Flow (BRL Mil)

Fiscal Year Ends in December	2011	2012	2013	*Forecast 2014*	*Forecast 2015*
Net Income	11,686	13,911	15,393	*12,119*	*14,490*
Depreciation	1,455	1,769	2,092	*2,455*	*2,566*
Amortization	—	—	—	—	—
Stock-Based Compensation	122	145	182	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	*-878*	*10*
Other Non-Cash Adjustments	—	—	—	—	—
(Increase) Decrease in Accounts Receivable	-422	-339	-1,174	*-160*	*-685*
(Increase) Decrease in Inventory	-290	-196	-423	*-316*	*-133*
Change in Other Short-Term Assets	—	—	—	*-496*	*-118*
Increase (Decrease) in Accounts Payable	1,307	551	1,268	*758*	*371*
Change in Other Short-Term Liabilities	—	—	—	*-573*	*288*
Cash From Operations	**13,859**	**15,840**	**17,338**	***12,909***	***16,789***
(Capital Expenditures)	-3,200	-3,014	-3,801	*-4,423*	*-3,948*
Net (Acquisitions), Asset Sales, and Disposals	72	-2,414	-143	*98*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,370	156	883	*578*	*16*
Cash From Investing	**-1,758**	**-5,272**	**-3,061**	***-3,747***	***-3,931***
Common Stock Issuance (or Repurchase)	-31	-30	-38	*-1*	—
Common Stock (Dividends)	-5,475	-5,450	-7,209	*-9,397*	*-7,732*
Short-Term Debt Issuance (or Retirement)	—	—	—	*-105*	*-336*
Long-Term Debt Issuance (or Retirement)	-2,667	-1,728	-665	*-168*	—
Other Financing Cash Flows	-478	-444	-1,425	*-184*	*-226*
Cash From Financing	**-8,652**	**-7,652**	**-9,337**	***-9,855***	***-8,294***
Exchange Rates, Discontinued Ops, etc. (net)	404	103	253	*-4,847*	—
Net Change in Cash	**3,852**	**3,019**	**5,194**	***-5,540***	***4,564***

Ambev SA ABEV (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
6.37 USD	7.00 USD	4.20 USD	10.85 USD	High	Wide	Positive	Exemplary	A	Beverages - Alcoholic

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Anheuser-Busch Inbev SA ABI BEL	1.09	15.5	22.8	21.4	11.8	13.3	12.5	16.8	—	18.9	3.3	3.6	3.3	3.9	4.2	4.0
SABMiller PLC SAB GBR	1.00	25.4	21.1	23.1	9.7	8.3	9.2	—	28.9	15.8	—	1.8	2.1	—	2.9	3.4
Heineken NV HEIA NLD	1.24	21.8	22.7	19.1	9.7	10.8	10.2	18.3	20.9	17.6	2.5	3.1	3.3	1.5	2.0	1.9
Average		20.9	22.2	21.2	10.4	10.8	10.6	17.6	24.9	17.4	2.9	2.8	2.9	2.7	3.0	3.1
Ambev SA ABEV US	**0.91**	**33.4**	**22.8**	**19.3**	**—**	**16.1**	**14.5**	**—**	**33.4**	**22.1**	**—**	**7.0**	**6.1**	**—**	**7.5**	**7.2**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Anheuser-Busch Inbev SA ABI BEL	— USD	11.0	13.3	11.1	10.9	—	—	31.5	16.9	16.7	10.9	6.1	6.5	3.7	2.9	2.3
SABMiller PLC SAB GBR	— USD	6.9	5.1	10.8	7.2	5.3	10.8	—	12.8	14.3	5.8	6.1	7.2	2.7	3.4	3.2
Heineken NV HEIA NLD	— EUR	9.9	10.3	11.7	10.0	11.2	12.6	11.8	14.3	15.7	3.9	5.0	5.4	2.5	2.0	2.0
Average		9.3	9.6	11.2	9.4	8.3	11.7	21.7	14.7	15.6	6.9	5.7	6.4	3.0	2.8	2.5
Ambev SA ABEV US	**— BRL**	**19.4**	**27.0**	**27.4**	**19.4**	**26.4**	**29.8**	**20.8**	**28.4**	**32.3**	**12.2**	**17.4**	**20.0**	**—**	**3.3**	**2.7**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Anheuser-Busch Inbev SA ABI BEL	43,195 USD	8.6	9.4	4.9	10.7	21.2	-7.6	25.4	-2.6	6.8	89.5	-3.0	234.5	69.9	-8.7	-19.6
SABMiller PLC SAB GBR	17,458 USD	—	-4.3	3.2	—	1.8	6.8	-22.3	4.3	9.1	-149.8	-19.9	42.6	13.9	7.6	11.6
Heineken NV HEIA NLD	19,203 EUR	4.5	1.8	3.2	6.3	20.2	6.7	-22.3	31.8	18.5	-172.4	-12.0	15.3	17.6	6.4	10.5
Average		6.6	2.3	3.8	8.5	14.4	2.0	-6.4	11.2	11.5	-77.6	-11.6	97.5	33.8	1.8	0.8
Ambev SA ABEV US	**34,791 BRL**	**7.9**	**9.0**	**4.1**	**9.5**	**12.0**	**12.0**	**-34.9**	**28.5**	**19.2**	**24.4**	**26.3**	**23.5**	**1.5**	**5.7**	**-17.7**

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Ambev SA ABEV (NYSE) | ★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

	Last Historical Year	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Net Income (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Anheuser-Busch Inbev SA ABI BEL	9,137 USD	59.3	*60.1*	*59.7*	40.7	*38.8*	*39.4*	34.4	*38.1*	*33.5*	21.2	*18.7*	*19.2*	23.1	*20.7*	*21.1*
SABMiller PLC SAB GBR	3,310 USD	—	*71.8*	*70.7*	39.0	*41.1*	*42.0*	31.4	*33.4*	*34.6*	19.0	*20.8*	*22.0*	—	*10.0*	*21.2*
Heineken NV HEIA NLD	1,293 EUR	59.6	*59.2*	*59.5*	21.1	*23.4*	*23.8*	13.6	*16.0*	*16.6*	6.7	*8.7*	*9.4*	8.1	*9.5*	*10.9*
Average		59.5	*63.7*	*63.3*	33.6	*34.4*	*35.1*	26.5	*29.2*	*28.2*	15.6	*16.1*	*16.9*	15.6	*13.4*	*17.7*
Ambev SA ABEV US	**7,461** BRL	**67.2**	***65.8***	***67.3***	**44.2**	***45.8***	***48.8***	**38.2**	***39.3***	***42.3***	**21.4**	***31.2***	***35.7***	**38.9**	***22.4***	***32.5***

Leverage Analysis

	Last Historical Year	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Total Debt (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Anheuser-Busch Inbev SA ABI BEL	49,126 USD	97.5	*91.6*	*74.4*	49.4	*47.8*	*42.7*	6.4	*7.3*	*8.9*	2.8	*2.7*	*2.3*	2.8	*2.7*	*2.5*
SABMiller PLC SAB GBR	18,548 USD	70.3	*64.8*	*53.0*	41.3	*39.3*	*34.6*	5.7	*6.5*	*7.3*	2.7	*2.5*	*2.0*	—	*2.0*	*1.9*
Heineken NV HEIA NLD	12,226 EUR	107.2	*97.7*	*110.1*	51.7	*49.4*	*52.4*	6.3	*10.3*	*10.8*	3.0	*2.7*	*2.7*	2.9	*2.8*	*3.0*
Average		91.7	*84.7*	*79.2*	47.5	*45.5*	*43.2*	6.1	*8.0*	*9.0*	2.8	*2.6*	*2.3*	2.9	*2.5*	*2.5*
Ambev SA ABEV US	**2,894** BRL	**6.8**	***6.5***	***4.9***	**6.3**	***6.1***	***4.7***	**6.2**	***17.2***	***-41.2***	**0.2**	***0.2***	***0.1***	**1.6**	***1.7***	***1.6***

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Anheuser-Busch Inbev SA ABI BEL	174,316 EUR	5.96	*4.48*	*3.87*	0.73	*0.63*	*0.67*	0.61	*0.50*	*0.53*	1.25	*0.87*	*1.28*	43.4	*64.2*	*48.3*
SABMiller PLC SAB GBR	57,878 GBP	1.35	*1.29*	*0.02*	0.67	*0.54*	*0.43*	0.53	*0.42*	*0.28*	0.88	*0.46*	*0.01*	46.7	*48.5*	*48.3*
Heineken NV HEIA NLD	38,684 EUR	2.24	*4.00*	*3.63*	0.71	*0.98*	*1.00*	0.51	*0.75*	*0.75*	0.60	*2.05*	*3.25*	52.1	*44.3*	*41.3*
Average		3.18	*3.26*	*2.51*	0.70	*0.72*	*0.70*	0.55	*0.56*	*0.52*	0.91	*1.13*	*1.51*	47.4	*52.3*	*46.0*
Ambev SA ABEV US	**99,834** USD	**0.88**	***0.36***	***0.65***	**1.19**	***0.92***	***1.21***	**1.03**	***0.74***	***1.03***	**10.85**	***6.14***	***17.18***	**96.6**	***79.5***	***54.9***

Research Methodology for Valuing Companies

Components of Our Methodology

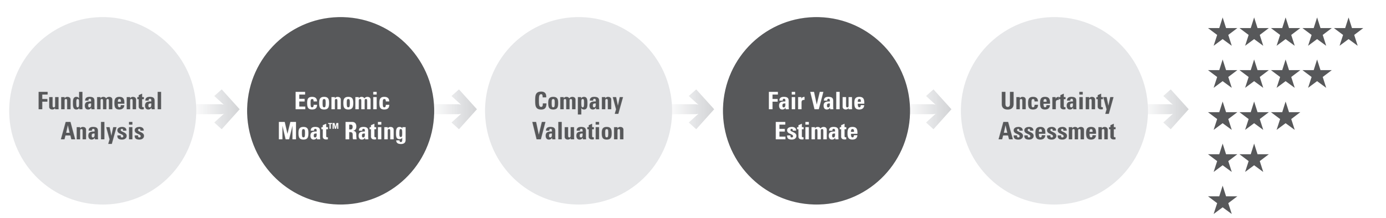
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

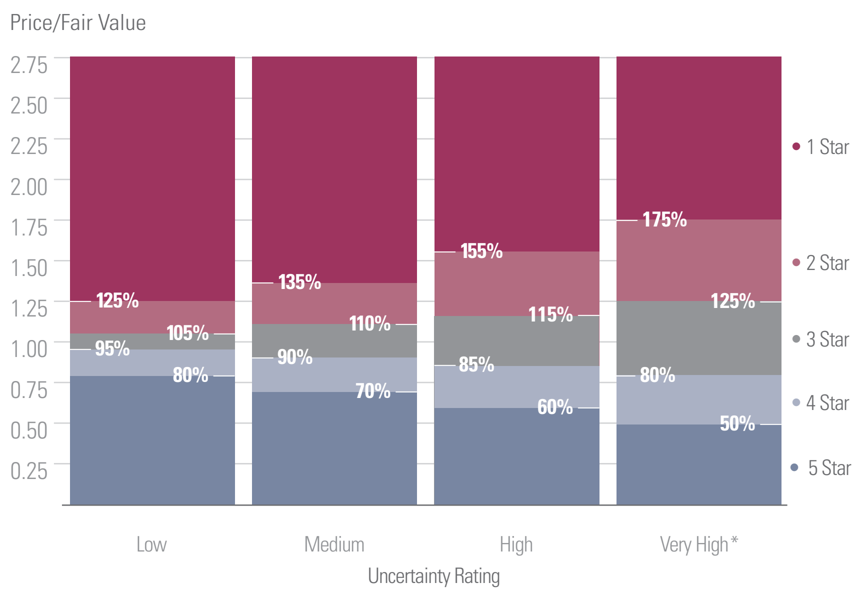
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

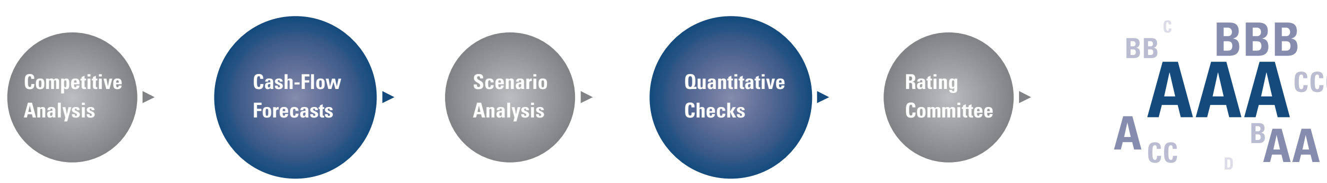
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Competitive Analysis

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash-Flow Forecasts

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Scenario Analysis

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Rating Committee

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

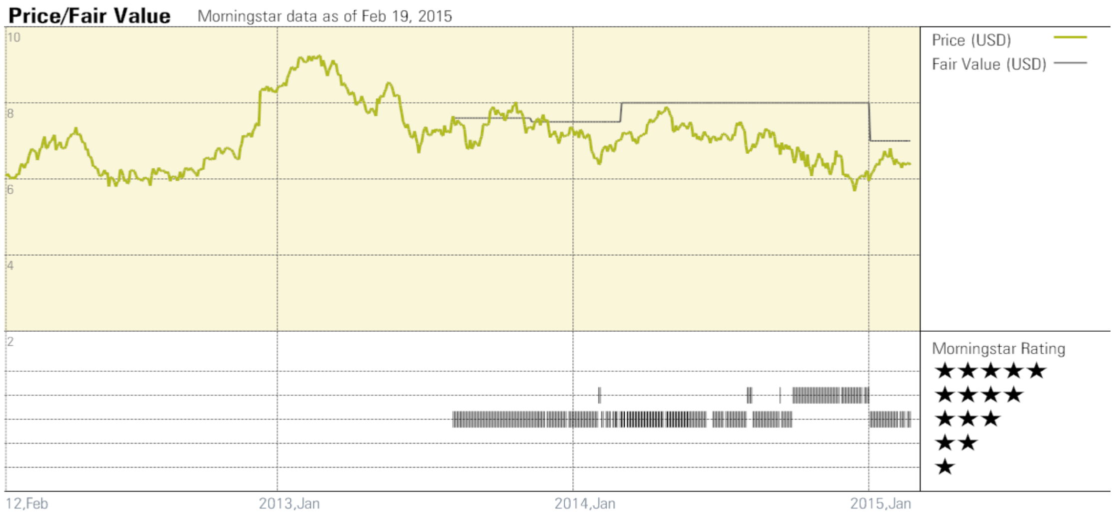
We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Ambev SA ABEV (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
6.37 USD	7.00 USD	4.20 USD	10.85 USD	High	Wide	Positive	Exemplary	A	Beverages - Alcoholic



The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

This Research Report is current as of the date on the report until it is replaced, updated or withdrawn. This report may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

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-Equity Analysts use publicly available information.

Ambev SA ABEV (NYSE) | ★★★

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-Further information on Morningstar's conflict of interest policies is available from http://global.morningstar.com/equitydisclosures.

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