ANHEUSER-BUSCH INBEV N.V. (NYSE) - BUD

Company Description:

Anheuser-Busch InBev N.V. is the world's largest brewing company. It produces, markets, distributes and sells a portfolio of over 200 beer brands. The company's operations are headquartered in Leuven, Belgium. Brands include Budweiser, Stella Artois, Beck's, Leffe, Hoegaarden, Skol, Bud Light and Brahma. Sales breakdown: North America, 34.2%; Mexico, 9.8%; Latin America North, 23.9%; Latin America South, 6.3%; Europe, 10.3%; Asia Pacific, 10.7%; Global Export & Holding Companies, 4.7%. Has about 155,500 employees. 3G Capital: 52.9%
Chairman: Oliver Goudet. CEO: Carlos Brito. Leuven, Belgium. www.ab-inbev.com

Basic Description:

Net profits have grown over time, driven partly by an increase in revenues and acquisitions, but also by an expansion in operating margins. Stock volatility has been fairly low with P/Es in the high teens, as the stock price has tracked the increase in net profits. BUD has been an aggressive share issuer and has increased its payout ratio of dividends to over 65%. This strategy has lifted the stock, creating a cheaper currency. BUD has a moderate ROC which has been levered significantly with debt to create superior ROEs. Depreciation rates are high, which is due to the capital intensive nature of brewing.

Profitability Description:

BUD has solid profitability, driven by a focus on expense control and targeted markets. BUD has focused on markets where it can efficiently leverage its size and advertising prowess to gain market share with outstanding profit margins - U.S., Mexico, Brazil,and China. These four markets account for half the beer volume in the world. In addition, the balance sheet debt level has been high, but managed around ebitda (2.5X). In the US, BUD spent heavily on marketing but still is slowly losing market share. In Mexico, with volume gains and a market share gain, price increases drove revenues and margins. In Brazil, despite a poor economy, BUD was able to gain market share while selling a greater mix of higher priced beer. In China, BUD was also successful in gaining market share while increasing volumes and prices. BUD sells 457 mln hl/yr, with 413 mln hl/yr of beer and 44 mln hl/yr of non-beer

Core Advantage Description:

BUD has 200 brands which provide excellent positioning and market share in local markets. BUD is able to capitalize on this local "moat" to overlay its scale, advertising and brand power to drive "premium" brands of Budweiser, Corona and Stella Artois in these markets. These "premium" brands have much greater margins and the rare ability to gain market share through this strategy. BUD has focused its resources on four markets, the US, Mexico, Brazil and China where it perceives advantages. In addition to these "innate" advantages, BUD has a managerial and ownership advantage through the relentless efforts of 3G. Outside the US and Europe, beer is clearly an "affordable luxury."

Investment Thesis:

BUD has a strategy of putting the most emphasis on the growth markets. China and Latin America are the best current candidates. However, Africa is a major growth market where BUD does not have a presence and will attempt to build there. It appears that the US and Europe are fully mature markets with a youth population that will be more driven by boutique brands. BUD's strategy appears to buy locally strong brewers, strengthen them and use their distribution to deliver the global "premium" brands of Budweiser, Corona and Stella Artois. In this way, margins expand as "premiumization" occurs. To generate high growth is difficult in mature categories such as consumer goods. However, BUD has a multi-prong strategy that combines a focus on emerging market growth, combined with a premiumization strategy that connect with ultimate margin expansion. In the next 10 years, there will be approximately 20% growth in beer volumes globally growing from 1.8 bln of Hl to 2.2 bln of Hl. In addition to this growth, BUD should be able to increase global market share by about 50 bp/year. Also, the pricing strategy of 2% inflation plus 3% "premiumization" should generate another 5%/year organic growth. This 7% top line growth is highly dependent on a transition from developed to developing markets. If this occurs, then a bottom line growth rate of 10% should be achievable given the expense controlled culture of BUD. Our assumptions include a terminal P/E of 19 that seems likely with the high conversion of sales to free cash despite the generally capital intensive nature of this business.

Purchase Description:

ACM considers BUD a buy at $90 (capital charge) to 4.5% and a buy to 3% at $98 and a buy to 2% at $108 and a sell of 1/2 at $150 and the remaining at $180 as a Tier I purchase.

FY End	Stock Price	Market Value (in mlns)
December	$102.00	$175,440.00

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Profit (mln)								1,927	4,613	4,026	5,855	7,243	7,936	9,216	8,273	*3,740*	*10,530*
EPS									$2.88	$2.51	$3.65	$4.51	$0.85	$5.73	$5.14	*$2.17*	*$5.68*
Operating EPS									$2.88	$2.51	$3.65	$4.51	$4.94	$5.73	$5.14	*$2.17*	*$5.68*
Ave. P/E Ratios									15.8	21.3	15.7	17.2	20.0	19.6	22.5		
Yrly Price Low									36.9	43.2	49.1	58.8	83.9	93.7	102.0	101.0	
Yrly Price High									53.7	64.8	64.5	91.2	106.8	117.5	130.0	136.1	
Dividends Paid									0.0	802.6	1895.2	2506.6	4871.6	5210.6	6352.4	*7568.0*	*9089.5*
Dividends PS									$0.00	$0.50	$1.18	$1.56	$3.03	$3.24	$3.95	*$4.40*	*$4.90*
Ave. Div. Yld.									0.00%	0.93%	2.08%	2.08%	3.18%	3.07%	3.41%	*3.71%*	
Shares Outstdg.									1604.3	1605.2	1606.1	1606.8	1607.8	1608.2	1608.2	*1720.0*	*1855.0*
Buyback $ (mln)									0.0	(48.6)	(51.1)	(52.5)	(95.4)	(42.2)	0.0	*(13253.9)*	*0.0*
Shr. Equity (mln)								22,442	30,318	35,259	37,492	41,142	50,365	49,972	42,137	*51,075*	*52,500*
Book Value PS									$18.90	$21.97	$23.34	$25.60	$31.33	$31.07	$26.20	*$29.69*	*$28.30*
LT Debt (mln)								48,039	47,049	41,961	34,598	38,951	41,274	43,630	43,541	*90,000*	*98,500*
Return On Eq.								8.59%	15.22%	11.42%	15.62%	17.60%	15.76%	18.44%	19.63%	*7.32%*	*20.06%*
Return On Capl.								2.73%	5.96%	5.21%	8.12%	9.04%	8.66%	9.85%	9.66%	*2.65%*	*6.97%*

Summary:

Investment Characteristics

Earnings Analysis:		*Use Of Earnings Analysis:*	
Growth Rate %:	-3.91%	*Avg Div Payout Rate*	65.11%
Quality %:	87.02%	*Avg Stk Buyback Ra*	-44.86%

	2000	2001	2002	2004	2005	2006	2007	2008	2009
Revenues (mln)								23,507	36,758
SPS									$22.91

Sales Analysis:		*Sales Analysis (last 5 yrs.):*	
Growth Rate %:	2.60%	*Growth Rate %:*	2.42%
Growth Rate PS %:	1.59%	*Growth Rate PS %:*	1.02%

	2000	2001	2002	2004	2005	2006	2007	2008	2009
Oper. Margin								31.4%	33.7%
Tax Rate								17.7%	23.3%
Deprec. (mln)								1,912	2,818
Depreciation %								99.2%	61.1%

Summary:	

Description & Analysis of Profi

	2012		2013		2014	
"Gross" Operating Revenues						
Excise Taxes						
"Net" Operating Revenues	**39,758**		**43,196**		**47,063**	
NorthAmerica	16,028	40%	16,023	37%	16,093	34%
Mexico	2,616	7%	2,769	6%	4,619	10%
LatAmNorth	11,268	28%	10,877	25%	11,269	24%
LatAmSouth	3,209	8%	3,269	8%	2,961	6%
Europe	3,650	9%	3,620	8%	4,865	10%
CandEEurope	1,668	4%	1,445	3%		
AsiaPacific	2,690	7%	3,354	8%	5,040	11%
Global	1,798	5%	1,839	4%	2,216	5%
Internal Costs:	**26,979**		**28,992**		**31,755**	
COGS	16,422	41%	17,594	41%	18,756	40%
Distribution	3,787	10%	4,061	9%	4,558	10%
Sales and Mktg.	5,254	13%	5,958	14%	7,036	15%
Admin.	2,200	6%	2,539	6%	2,791	6%
Govt grants	(684)	-2%	(1,160)	-3%	(1,386)	-3%
EBITDA:	**15,526**		**17,189**		**18,662**	40%
Depreciation	2,747		2,985		3,354	
"Free" Cash Flow:	**12,262**		**13,320**		**14,540**	
Capex	3,264		3,869		4,122	
EBIT:	**12,779**	32%	**14,204**	33%	**15,308**	33%
NorthAmerica	5,911	37%	5,932	37%	6,068	38%
Mexico	582	22%	1,054	38%	1,791	39%
LatAmNorth	5,081	45%	5,118	47%	4,979	44%
LatAmSouth	1,228	38%	1,311	40%	1,175	40%
WesternEurope	827	23%	801	22%	906	19%
CandEEurope	62	4%	51	4%		
AsiaPacific	67	2%	127	4%	517	10%
Global	(221)		(191)		(128)	
External Costs:	**3,422**		**3,925**		**4,318**	
Interest Expense, Net	2,366		2,203		1,828	
Income Taxes	1,680		2,016		2,499	
Assoc. and JV	(624)		(294)		(9)	
Earnings:	**7,192**	18%	**8,155**	19%	**8,904**	19%
Minority Interest	2,165		2,124		2,086	
Dividends:	**2,507**		**4,872**		**5,211**	
Share Repurchases:	**-53**		**-95**		**-42**	
					0	
Net Bness Acquisitions:	**1,445**		**13,437**		**6,700**	

Summary: Volume seems to rise only on acquisitions; reve
Volume in Mexico continues to increase
Revenue change, ex forex, was 6%+ in 2015; p
cogs change, ex forex, was 4% in 2015

Balance Sheet (in millions):

	2012	2013
Assets:	**122,587**	**141,582**
Property, plant and equipment	16,461	20,889
Goodwill	51,766	69,927
Intangible assets	24,371	29,338
Investments in associates and jc	7,090	187
Investment securities	256	193
Deferred tax assets	807	1,180
Post employment benefit assets	12	10
Trade and other receivables	1,228	1,252
Investment securities	6,827	123
Inventories	2,500	2,950
Income tax receivable	195	332
Trade and other receivables	4,023	5,362
Cash and cash equivalents	7,051	9,839
Liabilities:	**77,168**	**86,358**
Borrowings and bank overdrafts	38,951	41,274
Employee benefits	3,687	2,862
Deferred tax liabilities	11,168	12,841
Trade and other payables	2,313	3,222
Provisions	641	532
Bank overdrafts	0	6
Other financial liabilities	5,390	7,846
Income tax payable	543	1,105
Trade and other payables	14,295	16,474
Provisions	180	196
Shareholder's Equity:	**45,595**	**55,617**
Share capital	1,734	1,735
Share premium	17,574	17,608
Other reserves	469	327
Retained earnings	21,519	31,004
Non-controlling interests	4,299	4,943

Summary:

Drop in other reserves is due to

Description & Analysis of Debt Levels (in mlns):

Summary:	Debt is a four-letter word. Debt causes the years of repayment of capital to equity shareholders to stretch out into the more distant future. Even worse, debt can cause the best business model to become the property of bondholders in a rough economic environment.

Total Debt-Capital:	The measure of total debt to total capital is useful when book value is a good measure of a firm's worth. This is particularly true of traditional businesses where property, plant and equipment are important. Further, it helps to have this ratio in capital intensive businesses with cyclical earnings.

Total Debt:	88,916	Here, deferred income taxes have been excluded.
Total Capital:	134,635	Here, deferred income taxes have been excluded.
Ratio:	66.04%	

Long Term Debt-Cap.:	The measure of long term debt to total capital is useful when total debt is distorted by the high presence of current assets being financed by current liabilities. Again, the measure works best within a traditional industry setting. The ratio helps position the equity shareholders.

L. T. Debt:	43,541	Here, the current liabilities have been excluded.
L. T. Capital:	89,260	Here, the current liabilities have been excluded.
Ratio:	48.78%	

Net Income Payback:	The measure of how quickly total debt is repaid by net income is a conservative measure, as it includes debt such as current liabilities, that are financed by current assets and excludes some sources of cash, such as noncash amortization numbers.

Total Debt:	88,916
Net Income:	8,250
Years Paybacl	10.8

L.T. Debt:	43,541
Net Income:	8,250
Years Paybacl	5.3

Addback Net Inc. Paybac	The measure of how quickly debt is repaid by addback net income is a good measure, as it starts with GAAP net income and adds back expenses on an after-tax basis that are clearly discretionary, such as business acquisitions to better analyze the strength of the repayment stream.

L.T. Debt:	43,541	
Net Income:	8,250	
Addback:	0	Merger charges, writedowns above the line, dep. Amort below the line less capex
Years Paybacl	5.3	

Interpretations:	BUD is slightly above our debt limit and has negative working capital, but has stable cash flows that support an exception.

Industry Overview

The beverage industry has high profit margins and better than average financial characteristics. Brands are important in this sector and premium brands continue to have better results as consumers "trade up" globally. This highly competitive sector is characterized by a high level of M&A as bigger distribution systems seek to amortize their costs and deliver a greater variety of product.

Industry Comparisons

Operating Statistics:

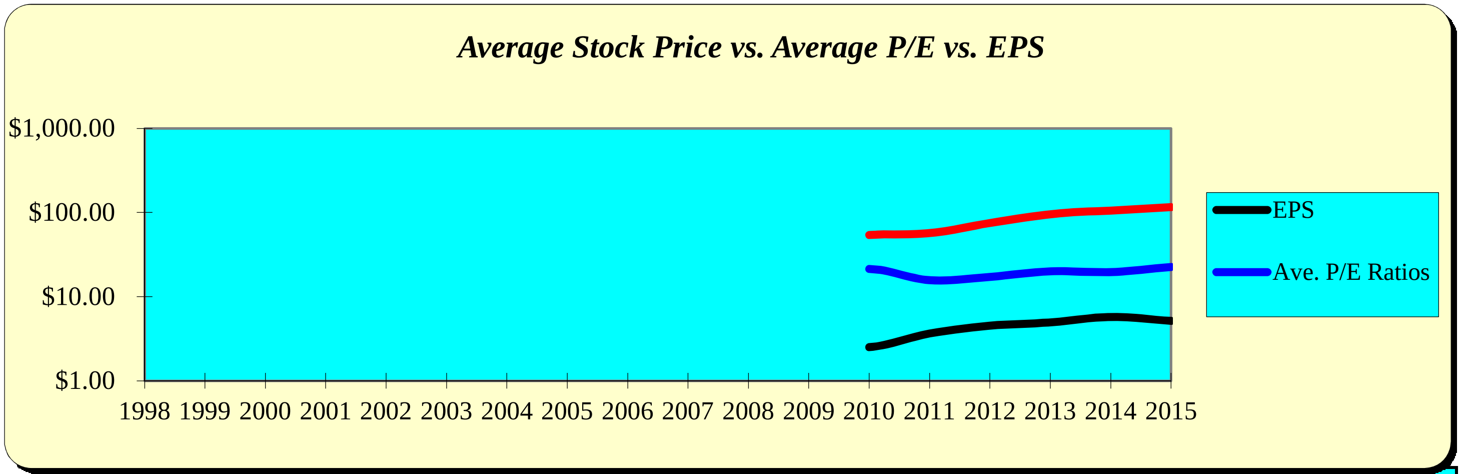
Company	*Yrs.Paybk*	*Sales*	*ROC*	*Operating Margin*
HEINY	6.06	$23,000	8.01%	21.30%
BUD	5.28	$58,200	6.97%	37.00%
TAP	6.50	$5,950	5.50%	18.00%
CABGY	8.00	$11,000	4.00%	20.00%

Market Statistics:

Company	*P/B*	*P/E*	*Divd. Yld.*	*EV/Sales*
HEINY	2.97	21.7	1.95%	3.11

Qualitative Characteristics

	Positives:	Negatives:
Product/Service:		
Pricing Power:	Yes	
Management:		
Effective As Public:	Yes	
Global Opportunity:	Yes	
Business Model:	Portfolio of Brands	
Toll Bridge:	Yes	
Competition:	Limited	
Economic Risk:		Yes, premium brands can trade down
Government Role:		Distribution and Taxation
Business Risk:	Little	
Durability:	Yes	
Role Of Technology:	Little	



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EPS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Ave. P/E Ratios	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ave. Stock Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Price/Earnings Ratio: used - $5.68
Seven year average low P/E is 15.7
Seven year average high P/E is 21.4
If we set the purchase at the ave. Seven year low P/E,
the price implied is: **$89.00**
If we set the sell at the ave. Seven year high P/E,
the price implied is: **$121.52**

Price/Sales Ratio: used - $31.37
Seven year average low P/S is 2.57
Seven year average high P/S is 3.48
If we set the purchase at the ave. Seven year low P/S,
the price implied is: **$80.69**
If we set the sell at the ave. Seven year high P/S,
the price implied is: **$109.06**

Price/Book Ratio: used - $29.69
Seven year average low P/B is 2.56
Seven year average high P/B is 3.47
If we set the purchase at the ave. Seven year low P/B,
the price implied is: **$75.96**
If we set the sell at the ave. Seven year high P/B,
the price implied is: **$102.95**

Price/Cash Flow Ratio: used - $8.02
Seven year average low P/CF is 10.8
Seven year average high P/CF is 14.7
If we set the purchase at the ave. Seven year low P/CF,
the price implied is: **$86.43**
If we set the sell at the ave. Seven year high P/CF,
the price implied is: **$117.54**

Initial Rate of Investment	
Current Price	$102.00
Current EPS	$5.68
Initial ROI	**5.57%**

Relative Value to Investment In T-Bonds	
Current EPS	$5.68
T-Bond Rate	4.00%
Relative Value	**$141.91**

Valuation as an Equity Bond:	
Current BV	$28.30
Current ROE	20.06%
Retained %	69.75%
Net BV Growth	13.99%
BV in Year 10	$104.83
EPS in Year 10	$21.03
Value@Ave.P/E	$399.48
Total Dividends	$33.00
Total F.Value	$432.48
Purchaseat14%	**$116.66**

Valuation on Earnings Growth:	
Current EPS	$5.68
EPS in Year 10	$14.72
Ave. P/E Ratio	18.88
Value@Ave.P/E	$312.75
Price Return	10.62%
Dividend Return	3.41%
Total Return	14.02%
Purchaseat14%	**$84.36**
Sell@5%	**$192.00**

Capital "charge"

21,460
0.12
0.09
0.7
0.057
376491.2281
98,500
277,991
1855
149.8605003
89.91630018
179.8326004

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales (mln)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
SPS	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Earnings (mln)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
EPS	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Operating EPS	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Shares Outstdg.	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Buyback $ (mln)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
#ShresBuyback	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Ave. P/E Ratio	24.00											

Cash Flow (in millions):

	2006	2007	2008	2009	2010	2011	2012
Cash From Operations:							
Net Income	$320	$389	$440	$435	$449	$572	$513
Depreciation & Amortization	$42	$44	$52	$55	$59	$56	$49
Stock-based Compensation	$9	$8	$10	$7	$8	$9	$9
Other	($28)	($86)	$32	($6)	$29	($110)	($55)
Net Cash From Operations	$343	$355	$534	$491	$545	$527	$516
Cash From Investing:							
Net Acquisitions and Investments	$204	($1,058)	($11)	$17	$0	$234	$0
Net Purchase of PP&E	($44)	($44)	($35)	($49)	($32)	($27)	($58)
Other	($163)	$64	$74	($5)	($3)	($4)	($10)
Net Cash From Investing	($3)	($1,038)	$28	($37)	($35)	$203	($68)
Cash From Financing:							
Net Issuance of Debt	($55)	$595	($172)	($6)	($302)	$55	($248)
Net Issuance of Stock	$23	$35	($202)	($41)	($161)	($135)	($222)
Dividends	($128)	($143)	($362)	($169)	($174)	($326)	($192)
Net Cash From Financing	($160)	$487	($736)	($216)	($637)	($406)	($662)
Effect of Exchange Rate Changes:	$0	$4	$10	($17)	$19	$11	($15)
Net Increase/Decrease During Year:	$180	($192)	($164)	$221	($108)	$335	($229)
Balance at Beg. of Year:	$295	$475	$283	$119	$340	$232	$567
Balance at End of Year:	$475	$283	$119	$340	$232	$567	$338

Summary:

Little or no reinvestment needs. Excess cash flow used to fund brand purchases, stock buy-backs and dividends.