

Anheuser-Busch InBev (BUD)

\$57.81 (As of 03/04/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/03/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

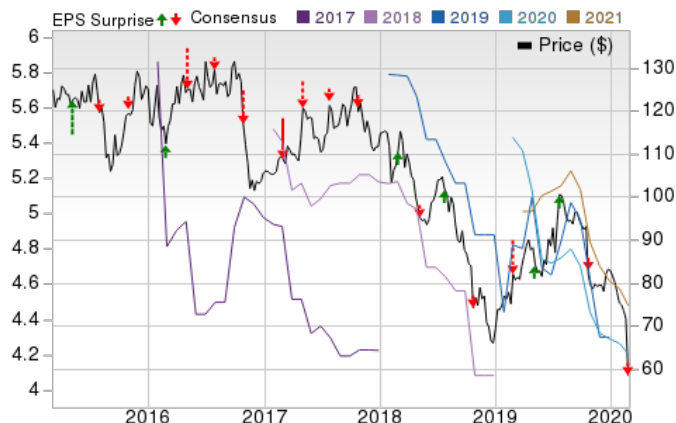
Growth: F

Momentum: C

Summary

AB InBev has declined and underperformed the industry year to date, owing to dismal top and bottom line results in fourth-quarter 2019 and a soft outlook due to the effects of coronavirus. Earnings were marred by soft top line and higher cost of sales. Top line was somewhat hurt by volume declines in the United States and China. Further, adverse currency translations and commodity cost inflation hurt cost of sales per hl, which is likely to persist in 2020. The company also provided a soft outlook for first quarter and 2020 due to the COVID-19 virus outbreak in China. The outbreak has eroded \$285 million of revenues and \$170 million of EBITDA in the first two months of 2020. However, its global brands and High End Company witnessed strong sales growth. Also, investments in hard seltzer category present a long term opportunity.

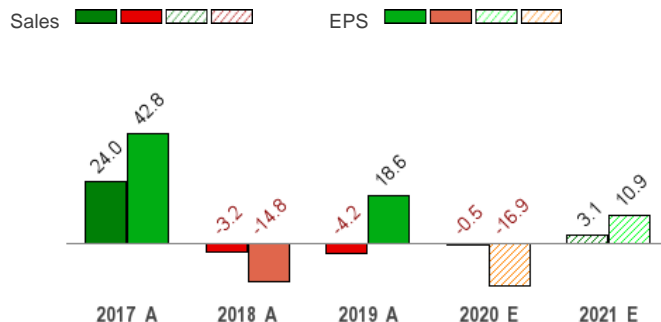
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$102.70 - \$55.40
20 Day Average Volume (sh)	2,314,142
Market Cap	\$94.4 B
YTD Price Change	-29.5%
Beta	1.36
Dividend / Div Yld	\$1.31 / 2.3%
Industry	Beverages - Alcohol
Zacks Industry Rank	Bottom 24% (195 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.4%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-20.5%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	13.7
P/E F1	17.1
PEG F1	2.0
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					53,710 E
2020					52,072 E
2019	12,589 A	13,963 A	13,172 A	13,334 A	52,329 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.76 E
2020					\$3.39 E
2019	\$1.27 A	\$1.25 A	\$1.22 A	\$0.48 A	\$4.08 A

*Quarterly figures may not add up to annual.

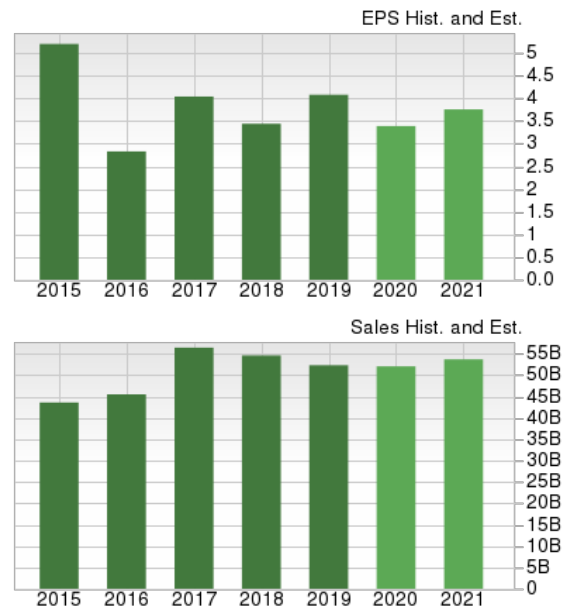
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/04/2020. The reports text is as of 03/05/2020.

Overview

Founded in 1366 and based in Leuven, Belgium, Anheuser-Busch InBev, alias AB InBev, is one of the biggest brewing companies (by volume), also ranking among the top five consumer product firms. Following the acquisition of SABMiller in October 2016, the company holds the top spot in the beer industry, controlling about one-third of the global beer market.

The company's diverse portfolio includes more than 500 brands. Its kitty includes global brands like Budweiser, Corona and Stella Artois; multi-country brands like Beck's, Hoegaarden, Leffe and Michelob Ultra; and local names like Aguila, Antarctica, Bud Light, Brahma, Cass, Castle, Castle Lite, Cristal, Harbin, Jupiler, Modelo Especial, Quilmes, Victoria, Sedrin, and Skol. AB InBev sells its beers in more than 150 countries. It generated revenues of \$52.3 billion in 2019.

The company operates in six management zones including North America (19.3% of 2019 revenues), Middle Americas (23.8%), South America (15.3%), APAC (24.9%), EMEA (16.6%) and Global Export and Holding Companies (0.2%).



Reasons To Sell:

- ▼ **Soft Q4 Performance, Dismal Surprise Trend:** AB InBev posted dismal fourth-quarter 2019 results, wherein earnings and sales missed the Zacks Consensus Estimate and declined year over year. This marked its second consecutive sales and earnings miss. Earnings were mainly marred by soft top line and higher cost of sales. Organic revenues were partly offset soft revenue per hl growth due to progress on its smart affordability strategy, despite robust volumes. Further, normalized EBITDA declined 11.2% year over year and 5.5% on an organic basis. EBITDA margin contracted 350 basis points (bps) to 40.1% and declined 336 bps organically. The decline mainly resulted from higher cost of sales per hl. This along with the soft outlook due to the effects of coronavirus has hurt AB InBev's stock performance. Shares of AB InBev have declined 29.5% year to date, wider than the industry's fall of 18.5%.
- ▼ **Coronavirus Concerns Hurt Outlook:** AB InBev revealed its outlook for the first quarter and 2020 based on the evolving situation due to the COVID-19 virus in China. The company notes that the coronavirus outbreak has led to a significant decline in demand across China in both on-premise and in-home channels. Further, it witnessed soft demand during the Chinese New Year, which was lower than that in the prior years, as it coincided with the coronavirus outbreak. The company stated that the outbreak has caused nearly \$285 million of lost revenues and \$170 million of lost EBITDA in the first two months of 2020. It expects EBITDA growth of 2-5% for 2020, with the majority of growth likely to be witnessed in the second half. In the first quarter of 2020, the company expects EBITDA to decline 10%, driven by the impact of COVID-19. Further, it stated that its outlook for the first quarter and 2020 reflects the current evaluation of the scale and magnitude of COVID-19. However, this might change on any further developments of the outbreak.
- ▼ **Soft Volumes in China and United States:** Though AB InBev's organic volume rose in the reported quarter, the growth was partly offset by declines in China and the United States. In China, volume declined 6.6% in the fourth quarter and 3% for 2019, driven by continued softness in the nightlife channel. In the United States, volume declined due to nearly flat sales-to-retailers (STRs) and 2.6% decline in sales-to-wholesalers (STWs). In North America (includes United States and Canada), total volume declined 2.4%, with own-beer volume down 2.4% driven by industry challenges across the region. Apart from soft volume in the United States, volume declines in Canada on a weak beer industry marred volumes in North America. Additionally, the company witnessed volume declines in Peru, Ecuador and South Korea.
- ▼ **Higher Costs & Adverse Currency:** While the company is gaining from improving trends in key markets and continued premiumization in the majority of its markets, adverse currency translations and commodity cost inflation continued to weigh on the bottom line. Higher commodity costs mainly relate to increased aluminum and barley prices. Consequently, cost of sales increased 4.1% and 9.1% organically in the fourth quarter. Further, organic cost of sales per hl grew 7.3%, driven by considerable increase in commodity costs and transactional currency woes. For 2020, the company projects cost of sales per hl to increase in mid-single digits.
- ▼ **Higher Taxes May Hurt Performance:** The beer and beverage industry remains susceptible to unfavorable changes in taxes. In many regions, these taxes constitute a major chunk of the cost of beer that is charged to customers. Thus, any rise in excise taxes or indirect taxes on AB InBev's products is likely to shift consumers' preferences to other beverages and weigh upon the overall consumption of the company's products, thus hurting its revenues and margins.
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AB InBev's outlook is based on the expected impacts of COVID-19 virus in China. The outbreak has eroded \$285 million of revenues and \$170 million of EBITDA in the first two months of 2020.

Risks

- **Premiumization Strategy:** AB InBev's premiumization strategy is led by its High End Company and global brands portfolio, both of which have been delivering strong growth. Notably, the company's three global brands — Budweiser, Corona and Stella Artois — delivered solid results in fourth-quarter 2019. Consolidated revenues for the brands improved 2.1% globally and 3.9% outside their respective home markets in the fourth quarter. Moreover, the global brands grew revenues by 8% outside of home markets. Sales for Budweiser rose 3.3% outside of the United States in 2019, led by strong performances from Brazil, Europe and India, offset by softness in the nightlife channel in China. Stella Artois delivered growth of 6.5% outside of Belgium, driven by robust growth in the United States and Brazil. Corona, the most premium global brand, sustained its growth momentum with revenues up 21% outside Mexico, driven by contributions from China and South Africa. Further, its High End Company (a portfolio of global, specialty and craft brands) revenues rose in double-digits in 2019. The improvement was mainly backed by the successful execution of the company's premiumization strategy. Notably, AB InBev's strength in global brands reflects the company's potential to grow backed by improving trends in key markets and continued premiumization in the majority of its markets.
 - **Smart Affordability Strategy:** Apart from the premiumization strategy, AB InBev is on track with smart affordability strategy, which is a category expansion framework that targets reaching new consumers and introducing beer to new occasions at affordable price points. This strategy is particularly relevant for the emerging markets where consumers have low disposable income, and therefore, affordability often restrains consumers from buying beers. As a part of this, the company has been expanding its portfolio to offer more accessible price points to consumers with initiatives like new packaging formats and new beers brewed with local crops. While these offerings call for incremental profits, these usually have a dilutive effect on net revenue per hectoliter. This strategy is already contributing to significant growth in major markets, including Brazil, Argentina, Colombia, Ecuador and South Africa.
 - **Strong Brand Portfolio & Geographical Reach:** AB InBev boasts a robust brand portfolio and solid geographic reach. The company's combined brand portfolio with SABMiller includes more than 500 beer brands, including some of the most renowned beer brands worldwide, like Budweiser, Corona and Stella Artois. Further, the robust kitty includes seven of the top 10 global beer brands, with 18 brands generating over \$1 billion in retail sales. AB InBev remains focused on further solidifying the strong image and market position of these brands, to enhance relations with consumers. Moreover, it is on track with the roll out of no- and low-alcohol beers to provide greater choices to consumers. In fact, management expects the low and no-alcohol beer category to account for about 20% of its global beer volumes by 2025. With its operations spread in North America, Latin America (North, South & West), Europe, Middle East and Africa (EMEA), Asia Pacific, AB InBev sells its beers in more than 150 countries. All these factors have helped this Belgium-based company to carve an impressive niche, thus emerging as the strongest player in the beer space.
 - **Catching Up with the Hard Seltzer Trend:** The beverage industry has undergone transformation with the arrival of hard seltzers, which has taken the alcohol-drinking American population by storm. The exponential rise of these products is a result of growing health-consciousness among drinkers and demand for better, refreshing beverages that offer more variety in terms of taste. AB InBev is gearing to expand market share in the United States with increased investments in hard seltzers, which is attracting new consumers to the flavored malt beverage (FMB) category. Notably, the company is witnessing strong growth rates for Bon Viv and Natural Light Seltzer. Further, it launched Bud Light Seltzer across the United States in January 2020, which is yielding positive results from consumers.
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Last Earnings Report

AB InBev Misses Earnings and Sales Estimates in Q4

Anheuser-Busch InBev, alias AB InBev, has reported fourth-quarter 2019 results, wherein earnings and sales missed estimates and declined year over year. This marked its second consecutive sales and earnings miss.

Normalized earnings per share of 48 cents declined 32.4% from 71 cents earned in the year-ago quarter. Moreover, the bottom line missed the Zacks Consensus Estimate of 53 cents. Earnings were mainly marred by soft top line and higher cost of sales.

Underlying earnings per share (normalized EPS, excluding mark-to-market gains and losses related to the hedging of share-based payment programs, and the impact of hyperinflation) were 87 cents in fourth-quarter 2019, down 25.6% from \$1.17 reported in the year-ago quarter.

Revenues of \$13,334 million dipped 3.3% from the year-ago quarter and lagged the Zacks Consensus Estimate of \$13,373 million. The company registered organic revenue growth of 2.5% along with a 0.9% increase in revenues per hectoliter (hl). Organic revenues benefited from the ongoing global premiumization and revenue management initiatives. However, these gains were offset by soft revenue per hl growth due to progress on its smart affordability strategy.

Notably, the company is accelerating the smart affordability plan in markets with tough macro-economic conditions. Its initiatives under the plan call for lower revenue per hl but offer incremental profits.

Total organic volume rose 1.6%, with a 0.8% increase in own-beer volume and a 8% rise in non-beer volume. The volume growth resulted from strength in Mexico, South Africa and Colombia markets, partly offset by declines in China and the United States.

Consolidated revenues at the company's three global brands — Budweiser, Corona and Stella Artois — improved 2.1% globally and 3.9% outside their respective home markets in the fourth quarter. Further, its High End Company (a portfolio of global, specialty and craft brands) revenues rose in double-digits in 2019. The improvement was mainly backed by the successful execution of the company's premiumization strategy.

The cost of sales increased 4.1% to \$5,269 million and 9.1% organically. Further, organic cost of sales per hl grew 7.3%.

The company's normalized earnings before interest, taxes, depreciation and amortization (EBITDA) were \$5,343 million, which declined 11.2% year over year and 5.5% on an organic basis. EBITDA margin contracted 350 basis points (bps) to 40.1% and declined 336 bps organically. The decline mainly resulted from higher cost of sales per hl.

Outlook

AB InBev revealed its outlook for the first quarter and 2020 based on the evolving situation due to the COVID-19 virus in China. The company notes that the coronavirus outbreak has led to a significant decline in demand across China in both on-premise and in-home channels. Further, it witnessed soft demand during the Chinese New Year, which was lower than that in the prior years, as it coincided with the coronavirus outbreak. The company stated that the outbreak has caused nearly \$285 million of lost revenues and \$170 million of lost EBITDA in the first two months of 2020.

It expects EBITDA growth of 2-5% for 2020, with the majority of growth likely to be witnessed in the second half. In the first quarter of 2020, the company expects EBITDA to decline 10%, driven by the impact of COVID-19. Further, it stated that its outlook for the first quarter and 2020 reflects the current evaluation of the scale and magnitude of COVID-19. However, this might change on any further developments of the outbreak.

For 2020, the company anticipates delivering top-line growth, with a balance between volume and revenue per hl. The company projects cost of sales per hl to increase in mid-single digits.

Management anticipates normalized effective tax rate of 27-29% for 2020. Net capital expenditure is projected to be \$5 billion. AB InBev expects modest dividend growth for the near term due to the increased importance of deleveraging. However, dividends are likely to grow gradually in the long term.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	-0.29%
EPS Surprise	-9.43%
Quarterly EPS	0.48
Annual EPS (TTM)	4.22

Valuation

Anheuser-Busch InBev shares are down 29.5% in the year-to-date period and 29.6% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 18.5% and 7.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 11.7% and the sector is up 2%.

The S&P 500 index is down 7% in the year-to-date period but up 7% in the past year.

The stock is currently trading at 13.61X forward 12-month earnings, which compares to 20.07X for the Zacks sub-industry, 18.11X for the Zacks sector and 17.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.53X and as low as 13.34X, with a 5-year median of 21.35X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$49 price target reflects 11.54X forward 12-month earnings.

The table below shows summary valuation data for BUD

Valuation Multiples - BUD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.61	20.07	18.11	17.15
	5-Year High	31.53	27.52	22.38	19.34
	5-Year Low	13.34	18.91	16.66	15.18
	5-Year Median	21.35	23.23	19.68	17.44
P/S F12M	Current	1.77	17.17	9.17	3.16
	5-Year High	4.81	20.67	11.13	3.43
	5-Year Low	1.74	14.42	8.09	2.54
	5-Year Median	3.26	17.58	9.88	3.01
EV/EBITDA TTM	Current	9.75	37.44	35.87	10.93
	5-Year High	16.82	55.34	45.75	12.88
	5-Year Low	9.3	34.77	31.94	8.49
	5-Year Median	14.2	44.35	38.84	10.79

As of 03/04/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (195 out of 255)



Top Peers

The Boston Beer Company, Inc. (SAM)	Outperform
Brown-Forman Corporation (BF.B)	Neutral
Craft Brew Alliance, Inc. (BREW)	Neutral
Carlsberg AS (CABGY)	Neutral
Diageo plc (DEO)	Neutral
Heineken NV (HEINY)	Neutral
Constellation Brands Inc (STZ)	Neutral
Molson Coors BrewingCompany (TAP)	Neutral

Industry Comparison Industry: Beverages - Alcohol				Industry Peers		
	BUD Underperform	X Industry	S&P 500	DEO Neutral	HEINY Neutral	TAP Neutral
VGM Score	F	-	-	C	B	B
Market Cap	94.41 B	8.59 B	22.29 B	96.10 B	60.20 B	11.36 B
# of Analysts	3	3	13	4	3	7
Dividend Yield	2.27%	0.00%	1.97%	1.93%	1.09%	4.34%
Value Score	D	-	-	C	B	A
Cash/Price	0.00	0.02	0.05	0.01	0.03	0.05
EV/EBITDA	8.74	9.71	13.20	15.76	NA	11.60
PEG Ratio	1.90	2.82	1.94	3.38	2.61	2.24
Price/Book (P/B)	1.12	2.42	3.05	8.08	3.29	0.83
Price/Cash Flow (P/CF)	7.41	15.13	12.16	21.00	12.38	6.11
P/E (F1)	16.48	21.24	17.58	21.24	20.00	13.47
Price/Sales (P/S)	1.78	1.72	2.45	NA	NA	0.87
Earnings Yield	5.86%	4.57%	5.69%	4.71%	4.99%	7.43%
Debt/Equity	1.15	0.42	0.70	1.14	0.87	0.59
Cash Flow (\$/share)	7.80	1.90	7.01	7.04	4.22	8.59
Growth Score	F	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	-5.02%	7.35%	10.85%	NA	NA	6.66%
Proj. EPS Growth (F1/F0)	-16.91%	6.22%	6.26%	3.07%	7.54%	-14.16%
Curr. Cash Flow Growth	15.28%	4.60%	6.03%	-1.12%	12.24%	-5.29%
Hist. Cash Flow Growth (3-5 yrs)	0.24%	4.63%	8.52%	-0.55%	4.17%	11.28%
Current Ratio	0.83	1.41	1.23	1.15	0.71	0.59
Debt/Capital	53.57%	29.41%	42.57%	53.21%	46.43%	37.23%
Net Margin	17.29%	7.61%	11.69%	NA	NA	1.86%
Return on Equity	20.56%	8.39%	16.66%	NA	NA	7.15%
Sales/Assets	0.45	0.51	0.54	NA	NA	0.44
Proj. Sales Growth (F1/F0)	-1.86%	0.24%	3.94%	2.40%	4.03%	-0.57%
Momentum Score	C	-	-	D	C	F
Daily Price Chg	2.05%	1.07%	3.75%	2.69%	3.06%	4.07%
1 Week Price Chg	-18.48%	-7.89%	-12.06%	-12.08%	-11.46%	-10.27%
4 Week Price Chg	-24.60%	-5.02%	-7.42%	-9.49%	-4.01%	-9.55%
12 Week Price Chg	-26.61%	-6.86%	-4.61%	-8.87%	-1.43%	2.56%
52 Week Price Chg	-29.61%	-6.46%	7.38%	-6.46%	2.57%	-12.77%
20 Day Average Volume	2,314,142	14,107	2,456,671	468,615	56,490	2,133,748
(F1) EPS Est 1 week change	-19.29%	0.00%	0.00%	-0.75%	0.00%	0.00%
(F1) EPS Est 4 week change	-20.49%	-0.13%	-0.06%	-0.75%	-0.13%	-2.01%
(F1) EPS Est 12 week change	-21.53%	-1.87%	-0.41%	-2.28%	-1.13%	-2.08%
(Q1) EPS Est Mthly Chg	NA%	-0.57%	-0.27%	NA	NA	-26.39%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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