

Anheuser-Busch InBev (BUD)

\$55.79 (As of 08/05/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: C

Summary

AB InBev's shares have outpaced the industry in the past three months attributed to its resilient volume trends in second-quarter 2020 due to the gradual reopening of on-premise channels across many countries. Though overall volume declined year over year in the quarter, volume trends improved on a month-to-month basis. Further, strength in the off-premise channel and premium brands remain encouraging. Driven by these trends, it reported better-than-expected top and bottom line result in second-quarter 2020. Additionally, the company's investment behind B2B platforms, e-commerce channels and digital marketing have accelerated in the past few months, which is likely to aid growth in the coming quarters. However, the company's second-quarter top and bottom lines declined year over year driven by significant the impacts of the pandemic.

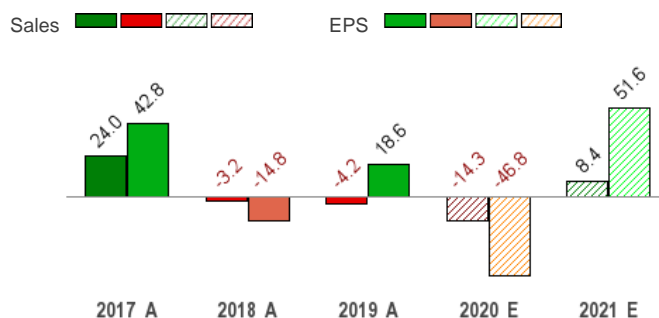
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.20 - \$32.58
20 Day Average Volume (sh)	1,937,835
Market Cap	\$112.5 B
YTD Price Change	-32.0%
Beta	1.35
Dividend / Div Yld	\$0.83 / 1.5%
Industry	Beverages - Alcohol
Zacks Industry Rank	Top 40% (101 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	48.4%
Last Sales Surprise	10.8%
EPS F1 Est- 4 week change	22.9%
Expected Report Date	10/23/2020
Earnings ESP	0.0%
P/E TTM	32.1
P/E F1	25.7
PEG F1	3.0
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					48,615 E
2020	11,003 A	10,294 A	11,584 E	10,935 E	44,850 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					\$3.29 E
2020	-\$0.42 A	\$0.46 A	\$0.75 E	\$1.12 E	\$2.17 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 08/05/2020. The reports text is as of 08/06/2020.

Overview

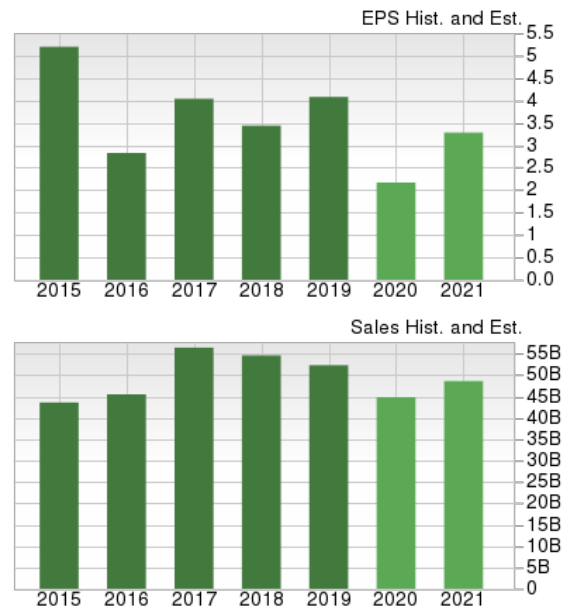
Anheuser-Busch InBev, alias AB InBev, is a global brewing company with more than 500 iconic brands. The company's leading position in majority of its markets and a strong global footprint lends the advantage of economies of scale and growing its multi-country brands globally. Its strategy is based on efforts to develop a portfolio of brands that cater to extensive consumer needs within the market, in terms of price range, flavor profiles, and brand meaning.

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 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%).

In 2019, developed markets represented nearly 41.4% of total revenues while developing markets represented 58.6%.



Reasons To Buy:

- ▲ **Improving Market Trends Aid Performance:** Shares of AB InBev surged 31.4% in the past three months, compared with the industry's growth of 14.3%. The stock's robust performance is attributed to the company's resilient volume trends throughout the second quarter due to the gradual reopening of the on-premise channels across many countries. Though overall volume declined year over year in the second quarter, volume trends improved on a month-to-month basis. The company noted gradual improvement in volume as the quarter progressed. Notably, organic volumes declined 32.4% in April and 21.4% in May, while it improved 0.7% in June. The company attributed this growth to the resilience in the beer category. Further, strength in the off-premise channel and premium brands remain encouraging. Driven by these trends, the company reported better-than-expected top and bottom line result in second-quarter 2020. Additionally, the company's investment behind B2B platforms, e-commerce channels and digital marketing have accelerated in the past few months, which is likely to aid growth in the coming quarters.

Gradual reopening of the on-premise channels across many countries led to improved volume trends on a month-to-month basis for AB InBev. This aided the company's Q2 performance.

- ▲ **Strong Performance In The United States:** Although AB InBev's revenues declined in second-quarter 2020 due to the effects of COVID-19 pandemic, its commercial strategy helped deliver strong performance in the United States. Notably, US revenues declined 5.9%, while revenue per hectoliter (hl) improved 0.2%. Revenue per hl was aided by its revenue management initiatives, partly offset by the on-premise closures, which hurt sales in brewpubs. Further, the facilitation of the return of kegs from the on-premise channel, in partnership with its wholesalers hurt performance. Notably, the company witnessed a gradual reopening of the on-premise channel throughout the second quarter, while many states have since reinstated restrictions. Moreover, EBITDA margin in the United States expanded 32 bps to 41% on cost efficiencies and the timing of variable compensation accruals.

Additionally, the company's core portfolio in the United States delivered market share gains of 90 basis points (bps) in the second quarter. This was driven by the launch of Bud Light Seltzer earlier this year, which is the company's top innovation in the category by volume in 2020. Further, an uplift of beer sales in the off-premise channel, is aiding sales trends in the United States.

- ▲ **China Recovery Aids Volume:** As the China markets were re-opened by mid-March, AB InBev continued its recovery gradually throughout the second quarter though volume declined 0.4%. It witnessed volume decline of 17% in China in April, followed by mid-single digit growth in May and June. In June, the company recorded highest ever monthly volume in China, while maintaining healthy levels of inventory in trade. In the second quarter, its Super Premium portfolio continued to witness momentum with volume growth during the quarter. Additionally, its mainstream brands outperformed the local brands in the quarter. While the company is seeing steady recovery in the in-home and restaurant channels in China, the nightlife channel recovery remains slow-paced. In the second quarter, the in-home channel delivered volume growth of high single digits, with strong growth in the e-commerce channel. Further, the on-premise channel in China is witnessing sales rates consistent with the prior-year quarter, as nearly 90% of restaurants were open by the end of June.

- ▲ **Digital Investments Aid Amid COVID-19:** AB InBev has been investing in new capabilities for several years to better connect with customers and consumers by leveraging technology, such as B2B sales and other e-commerce platforms. These platforms remained more relevant amid the coronavirus pandemic as consumers were confined to their homes. Notably, all markets witnessed dramatically accelerated growth trends for digital sales, e-commerce and online marketing in recent months. Notably, the company is witnessing accelerated growth in its e-commerce channel in the second quarter, via its direct-to-consumer platforms and partnerships with major global online retailers.

Additionally, consistent investments in owned and third-party e-commerce, including more than 20 direct-to-consumer ventures globally, positions the company to lead in online sales. In the second quarter, its owned e-commerce beer store portfolio in Europe more than doubled versus the year-ago quarter. Moreover, it witnessed accelerated growth for online sales in the beer category through Zé Delivery in Brazil. The company has also invented new proprietary platforms to connect with customers amid the crisis, like Tienda Cerca, which is a free online delivery service used by neighborhood shops in eight markets in Latin America. Apart from this, the company is increasing the power of its brands to connect with consumers, while they stay home. For this, it has developed unique activities like Michelob Ultra's at-home fitness programs in the United States, Budweiser's celebration for the return of the English Premier League in U.K. and Brahma's virtual country music concert series in Brazil.

- ▲ **Financial Flexibility:** AB InBev has demonstrated financial discipline amid the pandemic with several proactive measures. In the second quarter, the company delivered substantial savings from several initiatives while continuing to invest effectively behind its brands and commercial strategy. To maintain strong liquidity, it has proactively managed its debt profile. Earlier, the company drew down its \$9 billion revolving credit facility in full to maintain strong financial liquidity. It also completed a bond issuance worth EUR 4.5 billion and \$6 billion in Apr 2020. Subsequently, in June 2020, it further enhanced its financial position through the completion of the sale of its Australian subsidiary Carlton & United Breweries to Asahi Group Holdings Ltd. for US\$10.8 billion. Further, it witnessed gradual improvement in cash flows through the second quarter. Consequently, it repaid its revolving credit facility in June. Further, it repaid gross net debt of more than \$4.7 billion in July, through the execution of a tender offer for some Euro and US dollar bonds, as well as the redemption of certain US dollar, Australian dollar and Canadian dollar bonds.

Risks

- **Stock Appears Overvalued:** Considering the price-to-earnings (P/E) ratio, AB InBev looks pretty overvalued compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 32.06x, which is above the median level of 18.53x but below the high level of 33.38x. The trailing 12-month P/E ratio for the industry and S&P 500 are 30.55x and 23.5x, respectively. These factors profess that the stock valuation is quite stretched.
 - **Higher Cost of Sales:** Although AB InBev's cost of sales declined 12.6% and 4.9% on an organic basis in the second quarter, organic cost of sales per hl increased 15.2% due to operational deleverage on volumes due to the COVID-19 outbreak mostly on the closure of beer operations in many regions. Notably, total organic volume declined 17.1%, with a 17.2% decrease in own-beer volume and a 15.5% fall in non-beer volume. Consolidated revenues at its three global brands — Budweiser, Corona and Stella Artois — declined 16.6% globally and 12.6% outside their respective home markets in the second quarter. Moreover, gross profit declined 24.3% on a reported basis and 17.7% on an organic basis. Meanwhile, reported gross margin contracted 580 bps to 56.1% and 588 bps on an organic basis.
 - **Soft Q2 EBITDA:** AB InBev's second-quarter 2020 results reflected significant impacts from the coronavirus outbreak. The company's normalized earnings before interest, taxes, depreciation and amortization (EBITDA) declined 39.5% year over year and 34.1% on an organic basis. Normalized EBITDA margin contracted 830 bps to 33.2% and declined 825 bps organically.
 - **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.
 - **Competitive Threats:** AB InBev faces stiff competition from other players in its distribution network, as stronger purchasing power of other players is bound to compel AB InBev to lower its prices, raise capital investment and increase its marketing expenditure. All these factors are likely to hurt the company's margins and market share. Also, the company faces competitive pressure in terms of its pace of undertaking innovations to keep track of the evolving consumer trends. Further, continued consolidation among retailers in the beer space could hurt the overall profit of the industry. This, in turn, remains a threat to AB InBev's financial performance.
-

Last Earnings Report

AB InBev Beats on Q2 Earnings & Sales as Markets Evolve

Anheuser-Busch InBev SA/NV, alias AB InBev, reported second-quarter 2020 results, wherein the top and bottom lines beat the Zacks Consensus Estimate. However, owing to the significant impacts of the coronavirus outbreak in the second quarter, both earnings and sales declined on a year-over-year basis.

Despite a decline in volumes, the company witnessed gradual improvement on a month-to-month basis, as the situation evolved and the on-premise channels across many countries started opening. Further, strength in the off-premise channel and premium brands remain encouraging. Not only this, the company's investment behind B2B platforms, e-commerce channels and digital marketing have accelerated in the past few months, which is likely to aid growth.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	10.78%
EPS Surprise	48.39%
Quarterly EPS	0.46
Annual EPS (TTM)	1.74

Q2 Highlights

The company reported normalized earnings per share of 46 cents, reflecting a decline of 60.7% from \$1.17 reported in the year-ago quarter. However, the bottom line beat the Zacks Consensus Estimate of 31 cents.

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 40 cents in second-quarter 2020, down 63% from \$1.08 earned in the year-ago quarter.

Revenues of \$10,294 million declined 24.3% from the year-ago quarter. The company registered an organic revenue decline of 17.7% primarily due to a decrease in volume sold due to restrictions related to the coronavirus pandemic. The top line surpassed the Zacks Consensus Estimate of \$9,292 million. Meanwhile, revenues per hectoliter (hl) fell 0.6%.

Total organic volume declined 17.1%, with a 17.2% decrease in own-beer volume and a 15.5% fall in non-beer volume. The company's second-quarter volumes were primarily impacted by the coronavirus outbreak. However, it noted gradual improvement in volume as the quarter progressed. Notably, organic volumes declined 32.4% in April and 21.4% in May, while it improved 0.7% in June. The company attributed this growth to the resilience in the beer category.

Consolidated revenues at its three global brands — Budweiser, Corona and Stella Artois — declined 16.6% globally and 12.6% outside their respective home markets in the second quarter.

The cost of sales declined 12.6% to \$4,524 million and was down 4.9% on an organic basis. However, organic cost of sales per hl increased 15.2% due to operational deleverage on volumes due to the COVID-19 outbreak mostly on the closure of beer operations in many regions.

The company's normalized earnings before interest, taxes, depreciation and amortization (EBITDA) were \$3,414 million, which declined 39.5% year over year and 34.1% on an organic basis. Normalized EBITDA margin contracted 830 basis points (bps) to 33.2% and declined 825 bps organically.

Recent News

AB InBev Approves Annual Dividend - Jun 3, 2020

AB InBev's board has approved the total dividend of \$1.30 per share for 2019. Out of this, gross interim dividend of 80 cents has already been paid on Nov 19.

AB InBev Completes Sale of Australian Subsidiary – Jun 1, 2020

AB InBev completes the previously announced sale of its Australian subsidiary – Carlton & United Breweries (CUB) to Asahi Group Holdings, Ltd. for A\$16 billion (or about US\$11 billion). The company plans to use nearly all of the proceeds from the divestiture of the Australian business to pay down debt. Per the transaction, AB InBev has granted Asahi Group the rights to commercialize the portfolio of AB InBev's global and international brands in Australia.

Valuation

Anheuser-Busch InBev shares are down 32% in the year-to-date period and 43.2% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 23.9% and 7.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 28.1% and 5.2%, respectively.

The S&P 500 index is up 2.7% in the year-to-date period and 14.9% in the past year.

The stock is currently trading at 21.3X forward 12-month earnings, which compares to 25.05X for the Zacks sub-industry, 19.95X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.53X and as low as 10.15X, with a 5-year median of 21.02X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$64 price target reflects 24.43X 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	21.3	25.05	19.95	22.58
	5-Year High	31.53	27.52	22.37	22.58
	5-Year Low	10.15	18.8	16.63	15.25
	5-Year Median	21.02	23.3	19.57	17.55
P/S F12M	Current	2.46	16.02	9.44	3.63
	5-Year High	4.81	20.67	11.15	3.63
	5-Year Low	1.35	13.04	8.1	2.53
	5-Year Median	3.23	17.28	9.89	3.04
EV/EBITDA TTM	Current	8.7	37.56	35.94	12.8
	5-Year High	15.82	55.56	45.91	12.85
	5-Year Low	3.52	29.05	28	8.24
	5-Year Median	10.07	44.61	39.09	10.89

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The Boston Beer Company, Inc. (SAM)	Outperform	1
BrownForman Corporation (BF.B)	Neutral	3
Craft Brew Alliance, Inc. (BREW)	Neutral	3
Carlsberg AS (CABGY)	Neutral	3
Diageo plc (DEO)	Neutral	4
Heineken NV (HEINY)	Neutral	3
Constellation Brands Inc (STZ)	Neutral	3
Molson Coors Beverage Company (TAP)	Neutral	3

Industry Comparison Industry: Beverages - Alcohol				Industry Peers		
	BUD	X Industry	S&P 500	DEO	HEINY	TAP
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	4	3	3
VGM Score	F	-	-	B	B	A
Market Cap	112.49 B	10.82 B	22.93 B	79.96 B	53.45 B	7.91 B
# of Analysts	2	2	14	4	2	6
Dividend Yield	1.50%	0.00%	1.76%	1.98%	1.97%	0.00%
Value Score	F	-	-	D	B	A
Cash/Price	0.00	0.04	0.07	0.01	0.04	0.10
EV/EBITDA	9.70	9.72	13.16	NA	10.26	9.31
PEG Ratio	2.96	3.56	2.99	3.56	NA	1.66
Price/Book (P/B)	1.65	2.65	3.20	7.51	2.76	0.60
Price/Cash Flow (P/CF)	8.83	15.46	12.45	14.50	10.73	4.25
P/E (F1)	25.71	27.67	21.78	24.20	31.78	9.94
Price/Sales (P/S)	2.35	1.91	2.47	NA	NA	0.65
Earnings Yield	3.89%	3.33%	4.33%	4.14%	3.15%	10.05%
Debt/Equity	1.55	0.45	0.77	1.80	0.77	0.61
Cash Flow (\$/share)	6.32	1.53	6.94	9.44	4.32	8.59
Growth Score	F	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-7.49%	7.36%	10.46%	NA	NA	7.18%
Proj. EPS Growth (F1/F0)	-46.81%	-5.79%	-7.14%	2.82%	-39.92%	-19.09%
Curr. Cash Flow Growth	11.61%	-2.83%	5.47%	20.52%	2.45%	-5.29%
Hist. Cash Flow Growth (3-5 yrs)	0.84%	3.18%	8.55%	-0.55%	5.02%	11.28%
Current Ratio	1.17	1.49	1.32	1.77	0.68	0.67
Debt/Capital	60.81%	31.20%	44.59%	64.27%	43.57%	37.83%
Net Margin	2.55%	2.55%	10.15%	NA	NA	-1.33%
Return on Equity	9.03%	9.22%	14.46%	NA	NA	7.18%
Sales/Assets	0.41	0.51	0.51	NA	NA	0.42
Proj. Sales Growth (F1/F0)	-15.47%	0.00%	-1.68%	-0.58%	-16.05%	-8.03%
Momentum Score	C	-	-	B	D	C
Daily Price Chg	0.13%	0.00%	0.59%	-3.01%	-0.67%	-0.60%
1 Week Price Chg	-0.18%	0.12%	0.14%	2.57%	0.75%	2.82%
4 Week Price Chg	6.45%	-0.53%	5.31%	-1.96%	-2.42%	5.15%
12 Week Price Chg	38.75%	6.88%	19.84%	-0.62%	16.00%	0.86%
52 Week Price Chg	-43.17%	-5.95%	2.73%	-17.02%	-12.82%	-29.94%
20 Day Average Volume	1,937,835	27,390	2,098,555	393,555	43,977	2,047,825
(F1) EPS Est 1 week change	22.95%	0.00%	0.00%	-0.75%	-4.26%	30.72%
(F1) EPS Est 4 week change	22.95%	0.00%	1.10%	-3.17%	-4.26%	26.54%
(F1) EPS Est 12 week change	11.00%	4.22%	1.04%	-4.68%	-12.58%	22.33%
(Q1) EPS Est Mthly Chg	41.51%	0.00%	0.39%	NA	NA	-16.13%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.