

Equities

12 June 2012 | 40 pages

AB-InBev (ABI.BR)

Mix Clicks

- **We're increasingly positive on the US** — We are reiterating our Buy rating because we believe there is upside to profit forecasts in the US. We believe at least 5% EBIT growth is sustainable there in the mid-term, with a relevant contribution from mix. We think the recent fall provides an opportunity to buy into one of the market's best defensive growth stocks.
- **Mix should add almost \$800m of gross profit in the US over 5 years** — There are 3 distinct drivers of improved mix and each is already underway: (1) growth in the high-end, where ABI is significantly underrepresented – it has a share of only about 9% in Imports and 7% in Craft vs its total share of 48%; (2) shrinkage of the value segment, to which it over-indexes; and (3) growth of the "premium plus" segment driven by innovation on the core brands, like Bud Light Platinum. We estimate the mix benefit alone is worth 3% to EBIT growth per year in the US, which is why we consider our estimate of 5% total EBIT growth there so well under-pinned.
- **Consensus appears to be overlooking mix story** — Consensus for EBITDA growth hasn't increased noticeably from 3-3.5% since the beginning of the year, despite most observers getting more optimistic about the volume recovery in the US.
- **Brazil headwinds factored in** — We have had to cut our EPS estimates ~2½%, mainly due to the weakness of the Brazilian Real, which more than offsets our 1-3% upgrades to N America. However we think the shares have already digested the increase in Brazilian excise tax and the translational effect from F/X.
- **One of the best "defensive growth" stocks, with a compelling valuation** — ABI combines 8-9% organic EBIT CAGR with plenty of self help from: (1) pricing power in its key markets, (2) a strong cost savings culture and (3) significant P&L benefits from deleveraging. Its exposure to Southern Europe is close to zero. On 14.0x CY13E earnings, ABI is trading below its 5-year average P/E and at 11% discount to its blue chip staples peer group. (Historically the discount has averaged 4%). ABI is one of Citi's top picks and is included in [Citi Focus List Europe](#).

- Company Update
- Estimate Change

Buy	1
Price (11 Jun 12)	€54.36
Target price	€63.00
Expected share price return	15.9%
Expected dividend yield	3.2%
Expected total return	19.1%
Market Cap	€87,308M
	US\$109,288M

Price Performance (RIC: ABI.BR, BB: ABI BB)



AB-InBev (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (\$M)	36,297.0	39,045.0	39,657.6	41,117.4	43,925.2
Net Income (\$M)	5,040.0	6,449.0	7,269.6	7,805.4	8,728.1
Diluted EPS (\$)	3.16	4.03	4.54	4.87	5.44
Diluted EPS (Old) (\$)	3.16	4.03	4.64	5.00	5.55
PE (x)	21.5	16.9	15.0	14.0	12.5
EV/EBITDA (x)	12.1	11.2	11.0	10.0	8.8
DPS (\$)	1.19	1.60	2.19	2.38	2.75
Net Div Yield (%)	1.7	2.3	3.2	3.5	4.0

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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ABI.BR: Fiscal year end 31-Dec						Price: €54.36; TP: €63.00; Market Cap: €87,308m; Recomm: Buy					
Profit & Loss (US\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	36,297	39,045	39,658	41,117	43,925	PE (x)	21.5	16.9	15.0	14.0	12.5
Cost of sales	-18,855	-19,383	-19,235	-19,837	-20,936	PB (x)	3.1	2.9	2.6	2.4	2.2
Gross profit	17,442	19,662	20,423	21,280	22,989	EV/EBITDA (x)	12.1	11.2	11.0	10.0	8.8
Gross Margin (%)	48.1	50.4	51.5	51.8	52.3	FCF yield (%)	6.8	8.1	8.2	8.9	10.1
EBITDA	13,869	15,357	15,560	16,216	17,714	Dividend yield (%)	1.7	2.3	3.2	3.5	4.0
EBITDA Margin (%)	38.2	39.3	39.2	39.4	40.3	Payout ratio (%)	38	40	48	49	51
Depreciation	-2,456	-2,484	-2,481	-2,520	-2,667	ROE (%)	12.3	16.1	18.4	17.9	18.2
Amortisation	-248	-266	-268	-268	-268	Cashflow (US\$m)	2010	2011	2012E	2013E	2014E
EBIT	11,165	12,607	12,811	13,428	14,779	EBITDA	13,869	15,357	15,560	16,216	17,714
EBIT Margin (%)	30.8	32.3	32.3	32.7	33.6	Working capital	226	1,409	451	675	923
Net interest	-2,811	-2,597	-1,858	-1,496	-1,180	Other	-4,573	-4,685	-4,018	-4,140	-4,382
Associates	521	623	639	684	739	Operating cashflow	9,522	12,081	11,992	12,751	14,254
Non-op/Except	-1,193	-818	24	0	0	Capex	-2,123	-3,256	-3,111	-3,029	-3,254
Pre-tax profit	7,682	9,815	11,616	12,616	14,338	Net acq/disposals	84	14	-1,240	0	0
Tax	-1,920	-1,856	-2,211	-2,625	-3,128	Other	-124	917	715	765	826
Extraord./Min.Int./Pref.div.	-1,736	-2,104	-2,121	-2,186	-2,482	Investing cashflow	-2,163	-2,325	-3,636	-2,264	-2,428
Reported net profit	4,026	5,855	7,285	7,805	8,728	Dividends paid	-1,924	-3,088	-3,754	-4,737	-5,228
Net Margin (%)	11.1	15.0	18.4	19.0	19.9	Financing cashflow	-6,757	-8,996	-8,523	-10,479	-10,939
Core NPAT	5,040	6,449	7,270	7,805	8,728	Net change in cash	602	760	-167	8	888
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	7,399	8,825	8,882	9,721	11,000
Reported EPS (\$)	2.52	3.66	4.55	4.87	5.44	Revenues by Region (USD)	2010	2011	2012E	2013E	2014E
Core EPS (\$)	3.16	4.03	4.54	4.87	5.44	North America	15,296	15,304	15,772	16,147	16,600
DPS (\$)	1.19	1.60	2.19	2.38	2.75	Latam North	10,018	11,524	11,139	11,815	13,380
CFPS (\$)	5.97	7.56	7.49	7.96	8.88	Latam South	2,182	2,704	3,132	3,215	3,472
FCFPS (\$)	4.64	5.52	5.55	6.07	6.85	W Europe	3,937	3,945	3,645	3,555	3,512
BVPS (\$)	22.13	23.51	25.98	28.59	31.40	C&E Europe	1,619	1,755	1,768	1,786	1,919
Wtd avg ord shares (m)	1,592	1,595	1,597	1,599	1,602	APAC	1,767	2,317	2,692	3,030	3,408
Wtd avg diluted shares (m)	1,596	1,599	1,601	1,602	1,605	GEHC	1,479	1,496	1,509	1,570	1,633
Growth rates	2010	2011	2012E	2013E	2014E	Sales - total segments	36,298	39,045	39,658	41,117	43,925
Sales revenue (%)	-1.3	7.6	1.6	3.7	6.8	EBIT by Region (USD m)	2010	2011	2012E	2013E	2014E
EBIT (%)	8.9	12.9	1.6	4.8	10.1	North America	5,546	5,710	5,988	6,305	6,643
Core NPAT (%)	28.3	28.0	12.7	7.4	11.8	Latam North	4,083	5,118	4,927	5,158	6,012
Core EPS (%)	28.1	27.7	12.6	7.2	11.6	Latam South	849	1,081	1,264	1,311	1,429
Balance Sheet (US\$m)	2010	2011	2012E	2013E	2014E	W Europe	737	856	763	768	782
Cash & cash equiv.	5,152	5,423	5,256	5,264	6,152	C&E Europe	117	21	52	54	60
Accounts receivables	6,338	5,460	5,481	5,588	5,884	APAC	79	86	81	94	114
Inventory	2,409	2,466	2,459	2,467	2,592	GEHC	-245	-264	-264	-262	-260
Net fixed & other tangibles	15,893	16,022	16,341	16,547	16,808	EBIT - total segments	11,166	12,608	12,811	13,428	14,779
Goodwill & intangibles	75,857	75,120	75,163	75,198	75,255	Organic EBIT Growth (%)	2010	2011	2012E	2013E	2014E
Financial & other assets	7,936	7,253	7,258	7,270	7,292	North America	9.4	2.4	5.6	5.6	5.4
Total assets	113,585	111,744	111,958	112,334	113,983	Latam North	17.2	18.0	10.3	8.5	14.2
Accounts payable	14,366	14,885	15,350	16,140	17,483	Latam South	16.6	27.2	24.1	15.9	14.9
Short-term debt	2,933	5,567	4,911	4,911	4,911	W Europe	11.0	10.1	-4.1	2.1	1.8
Long-term debt	41,961	34,598	29,598	23,598	17,598	C&E Europe	-32.8	-81.4	163.1	5.6	10.5
Provisions & other liab	15,526	15,650	16,119	16,515	17,149	APAC	47.7	23.5	4.2	16.5	20.6
Total liabilities	74,786	70,700	65,978	61,164	57,142	GEHC	29.7	-9.5	0.4	-0.7	-0.8
Shareholders' equity	35,259	37,492	41,516	45,765	50,369	Total Organic EBIT	13.6	9.6	8.8	7.7	9.7
Minority interests	3,540	3,552	4,464	5,405	6,472						
Total equity	38,799	41,044	45,980	51,170	56,841						
Net debt	39,742	34,742	29,253	23,245	16,358						
Net debt to equity (%)	102.4	84.6	63.6	45.4	28.8						

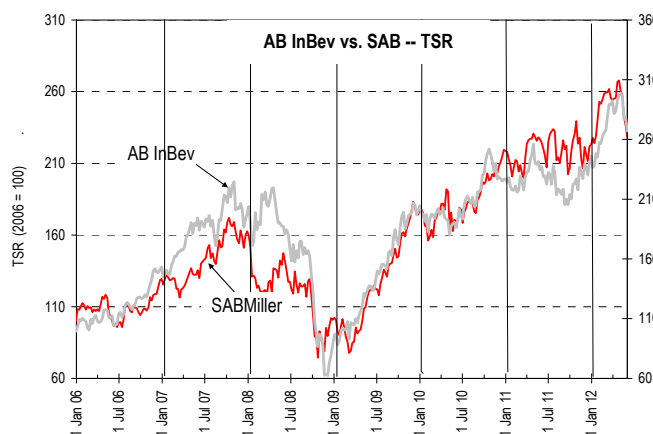
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 For definitions of the items in this table, please click [here](#).

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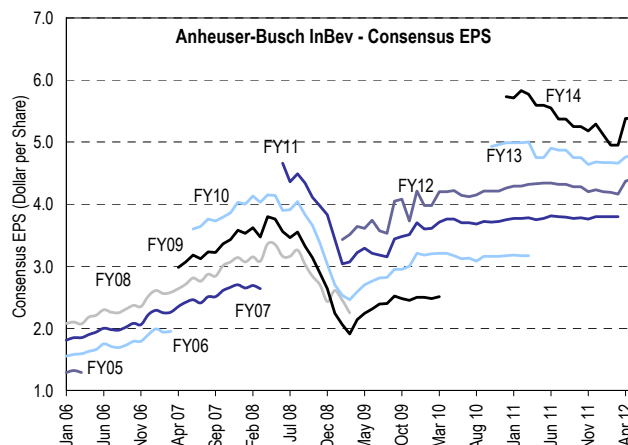
The Key Charts

Figure 1. Anheuser-Busch InBev vs. SABMiller, 2006 to Present (USD)



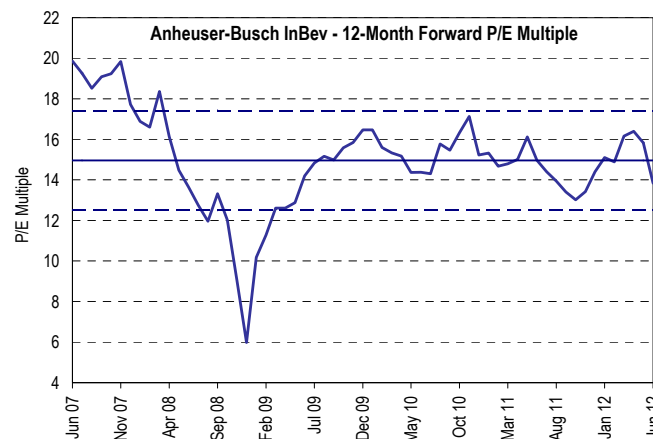
Source: DataStream, CIRA

Figure 2. Anheuser-Busch InBev – Consensus EPS



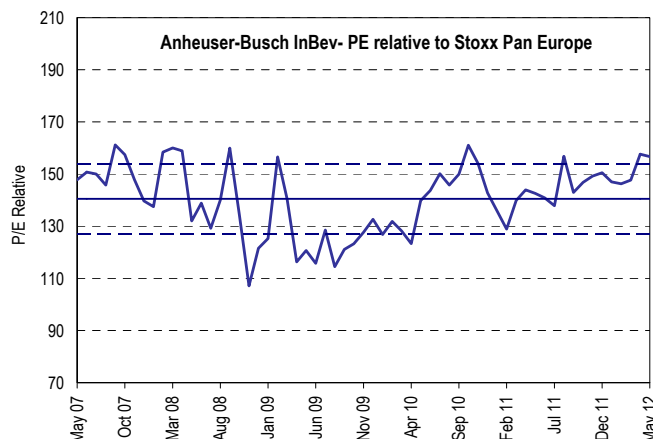
Source: DataStream, CIRA

Figure 3. Anheuser-Busch InBev – 12 Month Forward P/E Multiple



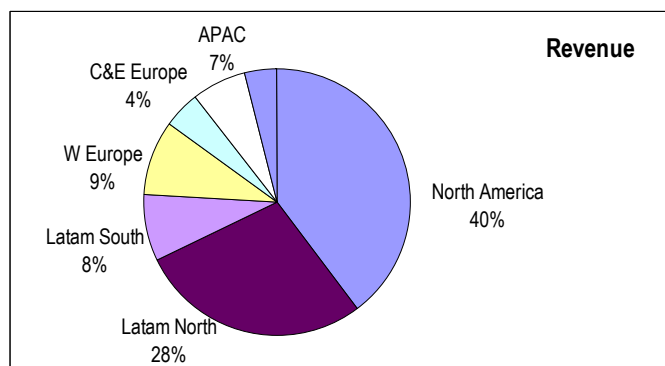
Source: DataStream, CIRA

Figure 4. Anheuser-Busch InBev – P/E Relative to Stoxx Pan Europe



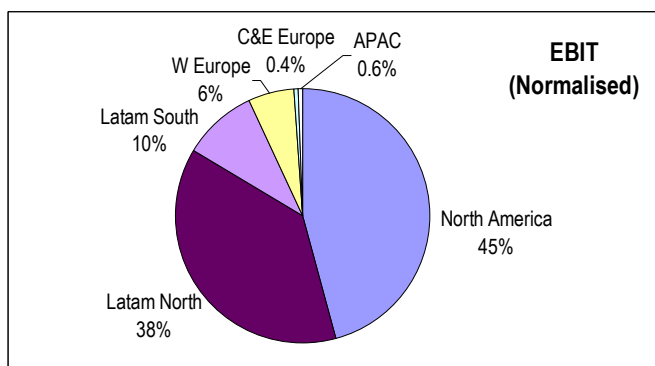
Source: DataStream, CIRA

Figure 5. Anheuser-Busch InBev – Split of Sales, FY12E



Source: Company Reports and CIRA Estimates

Figure 6. Anheuser-Busch InBev – Split of EBIT, FY12E



Source: Company Reports and CIRA Estimates

Investment Summary

We are reiterating our Buy on AB-Inbev, because we are increasingly optimistic about the outlook for the US, where we believe at least 5% EBIT growth is sustainable in the medium term.

In this report we try to demonstrate there is a substantial mix opportunity, which should add almost \$800m of gross profit over the next 5 years, equivalent to about 3% to EBIT growth per annum on our estimate. In addition we are confident ABI will continue to take front-line pricing of about 2%, and we expect volume to be less of a drag going forward.

It appears the market hasn't factored in the upside potential that we see from mix, because consensus EBITDA growth hasn't increased noticeably from 3-3.5% since the beginning of the year, despite most observers getting more optimistic about the volume recovery in the US. (By contrast our forecast for EBITDA growth is 4.5-5%.)

This estimated EBITDA growth in the US, combined with 11% compound growth in Brazil and 15% in Argentina, means we expect the company as a whole to post 8% EBITDA growth over 2011-16E, and on this basis we think the valuation is now particularly compelling.

In the last month the stock has fallen by 3% as investors have worried about Brazil. It is true that we have had to cut our overall EPS estimates by 2-2.5%, mainly due to the weakness of the Brazilian Real, which more than offset our 1-3% upgrades to North America EBITDA. However our new numbers are still roughly in-line with consensus, and **on 14.0x CY13E earnings, ABI is trading below its 5-year average P/E and at 11% discount to a blue chip staples peer group we track.** Historically the discount has averaged 4%.

We are leaving our price target at €63, despite our small cuts to EPS estimates, as we are now applying our target P/E multiple (15.4x) to earnings for the 12 months to June 2013.

With the negatives on Brazil mostly factored in, we believe, this is a good time to buy into one of the best defensive growth stories in the market.

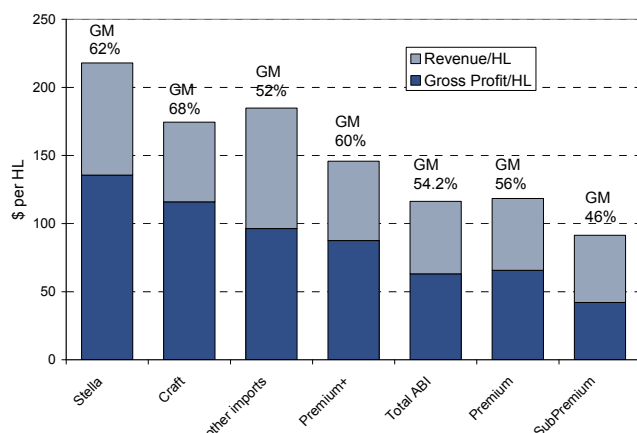
Why we're positive about mix in the US

The upside from mix is substantial and we believe it is one of the main reasons why ABI acquired Anheuser-Busch.

ABI's portfolio is extremely underrepresented in the high end segment and conversely over-indexes SubPremium (Figure 8). This has already been changing, but we expect further rebalancing given the focus in the US is now clearly on top line growth. In addition we expect more innovation to drive trading up from the core brands, which would also enhance margins.

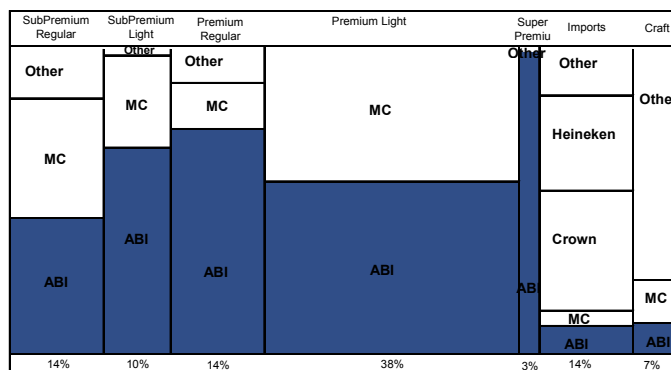
Gross profit is generally significantly higher on higher priced products, because production costs don't vary materially for different types of beer. (Figure 7 shows our estimates of gross profit per hectoliter and gross margin for each segment. We provide more detail on this on page 23).

Figure 7. ABI US – Revenue/HL and gross profit/HL for different price segments (US\$, 2011)



Source: CIRA Analysis, AC Nielsen

Figure 8. US beer market shares by segment



Source: ABI, AC Nielsen, CIRA

There are 3 distinct components to the mix story in our view, which we analyse in detail in this report, but each is already underway:

1. Growth at the high end (in Imports and in Craft)

- ABI is significantly under-represented here, with an estimated share of only 9% in Imports and 7% in Craft, vs its total US beer share of around 48%.
- But it is growing mainly via Stella in Imports (22% CAGR since the end of 2009) and Shock Top in Craft (the brand has more than doubled its volume in the last two years). Stella and Shock Top are still relatively small however, 1/4 of the size of Heineken and Blue Moon (owned by MillerCoors) respectively, therefore we see significant scope for them to continue to grow.

2. Low end shrinkage

- The Value segment is still much larger in the US than in most other developed beer markets (Figure 27) and ABI over-indexes to this segment.
- ABI and MillerCoors have been reducing the price gap between value brands (subpremium) and premium brands (Bud Light, Budweiser), providing an incentive for consumer to trade up. As a result, the value segment has been losing about 1% of share for the past couple of years and we expect this trend to continue, as ABI is aiming to further narrow the price gap from 23% today to 15-20% and we expect MillerCoors to do the same.

3. Trading consumer up with higher priced innovation and line extensions

- Three years into the Bud acquisition, 2012 has seen a considerable step up in innovation. Besides Bud Light Platinum, ABI has launched several other new products, including Bud Light Lime-A-Rita and Michelob Ultra Light Cider. Going forward we expect a more steady flow of innovation than in recent years because: (1) the agenda in the US has clearly shifted to top line and (2) the innovation pipeline looks healthy again (after a couple of years work to refill it)

Quantification: almost \$800m benefit over 5 years

We estimate brand mix will add nearly \$800m to US gross profit in the next 5 years, which is **worth around 3% to EBIT growth** each year¹.

We show this in Figure 9, but on pages 22 to 25 we detail how we get to these figures and what assumptions underpin our forecasts.

In summary, we split ABI's portfolio into six segments (from Stella all the way down to SubPremium) and we estimate profitability (gross profit/HL) for each segment. We then make what we think are reasonable 5-year volume growth assumptions² to project what the portfolio could look like in 2016. We then apply 2011 gross profit/HL figures to our 2016 volume split³ in order to calculate the incremental gross profit, which we attribute to mix: \$784m⁴.

Figure 9. Summary calculation of ABI US brand mix benefit

	Relative price point (Bud Light=100)	Relative COGS	Gross Margin	Gross Profit/HL \$, 2011	Volume 2011 (‘000 HL)	Gross Profit 2011 \$ mln	Volume CAGR 2011-16	Volume 2016 (‘000 HL)	Gross Profit 2016 \$ mln	Brand Mix Benefit 2011-16
Stella	180	68.0	62.2%	136	1,296	176	20%	3,225	437	
Oth. Imports	140	67.0	52.1%	96	1,866	180	2%	2,060	198	
Craft	155	52.0	66.5%	116	1,223	142	25%	3,732	433	
Premium+	120	48.0	60.0%	88	11,846	1,037	12%	20,877	1,827	
Premium	100	44.5	55.5%	66	66,860	4,394	-1.5%	61,994	4,074	
SubPremium	77	41.5	46.1%	42	33,059	1,394	-4%	26,955	1,136	
ABI US						\$7,322 m			\$8,106m	\$784m

Note: Premium+ includes brands like Michelob Ultra and higher prices line extensions of Bud Light (Lime, Platinum); Premium includes Bud Light and Budweiser Note 2: Our volume growth assumptions are explained in Figure 34. Note 3: The mix benefit is the difference between 2016 and 2011 Gross Profit.

Source: Company Reports, CIRA estimates

5% EBIT growth in the US is sustainable

There has been a view in the market that the US would run out of growth when the Bud synergies were delivered. And indeed EBITDA growth in 2011 almost stalled at +1.5%, as cost savings slowed at the end of the 3 year program, volumes declined -3.2% and mix only contributed 25bps to sales.

However we expect 2012 and the next few years will be a different story, with more focus from management on top line growth and, we hope, a better economy. We started to see the benefit of more innovation (and less operational deleverage) in 1Q12, with EBIT growing at 10.5%.

We don't expect that sort of growth going forward, but we do believe 5% EBIT growth, at least, is sustainable. And this doesn't seem to be factored into consensus.

¹ 2011 US EBIT is \$5,049m. $((5049+784)/5049)^{(1/5)}-1 = 2.9\%$

² The weighted average growth rate of the 6 segments is -0.3%, which we believe is a reasonable growth rate for ABI US. The 5-year volume CAGR is +0.4% because as the high-end grows faster, the portfolio is gradually reshaped towards the faster growing segments.

³ Assuming that gross profit/HL doesn't change in the next 5 years, we strip out any pricing and cost inflation impact.

⁴ A small portion of the \$784m is volume driven and comes from the fact that our volume growth forecasts by segment imply a slight increase in total volume over the 5 year period.

How we get to 5% EBIT growth

We expect mix to be a major contributor (around 3% each year), as we said. In addition, we are confident ABI will continue to take pricing at inflation and we expect volume to be less of a drag going forward.

In Figure 10 we show the moving parts to get to 5% EBIT growth. We provide more detail, including sensitivity analysis, on page 25.

The assumptions are summarized in the last column on the table and they don't seem overly optimistic, we believe. We don't consider any benefit from taking costs out of the distribution network, for instance, and we also think management could do better than keeping fixed cost increases at one point below inflation.

Figure 10. ABI US P&L – Sustainable EBIT growth model

	ABI US 2011 \$ mln	Growth rate in a "typical" year	ABI US Year 1 \$ mln	Comments/ Assumptions
Volume (mln HL)	116.2	-0.3%	115.8	Consistent with mix analysis in Figure 9. -0.3% is the weighted av. of 5-yr segment growth rates
Pricing (excludes mix)		2.0%		We believe pricing in line with inflation is sustainable
Package / Channel mix		0.3%		Small mix benefit as consumers "trade up" to smaller pack sizes in more favourable economy
a) Sales (ex brand mix)*	13,509	2.0%	13,779	2.0% sales growth doesn't include brand mix of ~110bps, because we add mix to EBIT directly
b) Brand Mix Benefit on EBIT		2.9%	148	We add the 2.9% mix benefit here to capture the profit impact
c) COGS (ex brand mix)	(6,182)		(6,272)	
Raw Materials and Packaging	(4,121)	1.7%	(4,191)	1.7% is 2% RMP/HL inflation less the volume decline
Fixed COGS	(2,061)	1.0%	(2,081)	We assume ZBB keeps fixed cost inflation at 1 point below inflation
d) G&A costs	(833)	1.0%	(841)	We assume ZBB keeps fixed cost inflation at 1 point below inflation
e) Sales & Marketing	(1,445)	+30bps as % of sales	(1,516)	Evolution of the portfolio toward "growth" segments should structurally drive higher A&P
EBIT (a+b+c+d+e)	5,049	4.9%	5,298	4.9% growth is the result

* The brand mix benefit on sales is worth around 110bps

Source: Company Reports, CIRA analysis

It isn't factored into consensus

Based on the latest detailed consensus available (provided by the company at the end of April, just before Q1 results), analysts' expectations for North America EBITDA growth were only 3-3.5%⁵.

It is interesting that consensus for profit growth has barely moved since the beginning of the year, although analysts have got more positive on US volumes.

Figure 11. ABI – Consensus for North America org volume and EBITDA growth

2012E consensus	At beg Aug-11	At end Oct -11	At end Feb-12	At end Apr-12
Volume	-0.5%	-0.7%	-1.5%	-0.6%
EBITDA	4.1%	3.0%	2.5%	3.0%
2013E consensus	At beg Aug-11	At end Oct -11	At end Feb-12	At end Apr-12
Volume			0.0%	0.0%
EBITDA			3.3%	3.5%

Source: Consensus compiled by company (and submitted 2 days before each quarter's results)

We believe the market is too low on US profit and one of the reasons could be that it is overlooking the mix opportunity.

⁵ There is no consensus for EBIT growth.

A defensive growth stock for a challenging environment

As we've said this note focuses on the US mix opportunity, even though there are other bull points to the investment case.

ABI is one of the best examples of "defensive growth" stocks our strategists favour.

Figure 12. ABI vs CIRA Strategists' Themes

Theme	Insight	ABI
Growth	Any growth will stand out in likely future environment	■ 8-9% org EBIT growth
High EM/Low Europe	We forecast increasingly divergent economic growth	■ EM: 49% of EBIT + associate stake in Modelo ■ W Europe: 7%; S Europe: <0.2%
Self Help	Good in a world where economic environment is tough	■ Pricing power in key markets ■ Deleverage ■ Cost savings culture
Quality	We back quality: growth & margins, B/S, cash generation, returns	■ World Champion (No1 place) ■ ND/EBITDA: 1.9 (2012e) ■ EBIT margins: 32%
Risk Adjusted Yield	If growth is low, then yield is likely to contribute more to TSR, but got to take cost of CDS into account	■ 3.2% - 34bps = 2.9%
De-equitisation	Makes sense to buy equity when interest rates are so low vs cost of equity	■ Likely to start buy back in 2013 (could be 3-4% of mkt cap)
Credit Crunch	Risks to Vendor and Supplier Financing	■ Not a problem
Survivors Party	Explosive returns can be made in beaten up companies as focus changes from disaster to cyclical upside. We focus on Big, Beta, Balance Sheet	■ Low beta: 0.75
Inflation	One way developed world may reduce debt is inflation.	■ Pricing power

Source: Citi Investment Research and Analysis

It combines one the best growth profiles in staples (8-9% EBIT CAGR) with plenty of self help, which comes from:

- **Pricing power in its key markets** (accounting for 80% of EBIT)
- **An entrenched cost savings culture**
- **P&L benefits from deleveraging.** Within European staples, ABI gets the biggest boost to EPS from decreasing financial charges. Deleveraging has added between 6 to 12% to EPS growth in each of the past 3 years (Figure 13). This is not surprising given ABI's cash generation⁶. Going forward we expect the benefit should be slightly lower, as ABI is likely to increase cash returns to shareholders.

⁶ ABI's FCF before dividend and M&A is greater than SABMiller's, Heineken's and Carlsberg's put together.

Figure 13. ABI – Earnings Growth Drivers 2010-13E

Drivers	2010	2011	2012E	2013E
EBIT (incl minorities)	4%	14%	2%	6%
<i>o/w organic</i>	7%	11%	13%	10%
Reduction in Net Interest	12%	6%	8%	4%
Other Fin charges	6%	-2%	1%	0%
Associates	0%	2%	0%	0%
Tax rate benefit	6%	9%	1%	-4%
Net Profit growth	28%	28%	12%	7%

Source: Company Reports, CIRA estimates

Consistent EPS and share price outperformance

Last but not least, ABI's track record of outperformance is quite convincing too.

ABI has delivered 16% compound EPS growth since 2003 (best in class within European staples, bar Reckitt Benckiser, as highlighted in Figure 14). This has resulted in its share price more than trebling over the last 8 years (17% CAGR). **ABI has outperformed the DJ Stoxx and the consumer staples sector every year since 2004, except in 2008** (when it acquire Bud in the midst of the financial crisis). We show this in Figure 15.

Figure 14. European Consumer Staples EPS Growth, CY04-11

	CY04	CY05	CY06	CY07	CY08	CY09	CY10	CY11	CAGR 03-11
Reckitt	16%	17%	19%	15%	28%	23%	16%	9%	18%
AB-InBev	33%	-17%	47%	33%	-3%	-2%	28%	28%	16%
SABMiller	32%	15%	11%	17%	1%	12%	18%	13%	15%
BAT	11%	17%	10%	15%	14%	19%	15%	11%	14%
Henkel	55%	-2%	12%	9%	-1%	-13%	48%	11%	13%
IMT	12%	10%	10%	13%	17%	15%	9%	5%	11%
Swedish M	-25%	26%	36%	-6%	18%	-6%	50%	8%	10%
Carlsberg	12%	-17%	43%	30%	-16%	16%	31%	-3%	10%
Danone	11%	14%	18%	1%	11%	0%	5%	7%	8%
Diageo	-4%	2%	16%	9%	8%	9%	15%	12%	8%
Pernod	0%	8%	20%	15%	8%	-1%	-1%	9%	7%
L'Oreal	-6%	14%	15%	13%	4%	-2%	17%	8%	7%
Nestle	24%	-6%	10%	19%	0%	10%	8%	-7%	7%
Heineken	-1%	5%	11%	20%	-9%	4%	19%	5%	6%
Beiersdorf	-1%	14%	34%	22%	-9%	-19%	16%	-2%	6%
Unilever	-17%	21%	12%	-3%	0%	-7%	5%	4%	1%

Source: Company Reports and CIRA

Figure 15. European Consumer Staples – Share Price Performance, 2004-11 (in local FX)

	2004	2005	2006	2007	2008	2009	2010	2011	2003-11 CAGR
SABMiller	49%	23%	11%	21%	-18%	57%	24%	0%	19%
BAT	17%	45%	10%	38%	-8%	12%	22%	24%	19%
AB-InBev	35%	29%	36%	14%	-53%	120%	18%	11%	17%
Swedish Match	5%	21%	37%	21%	-28%	40%	24%	25%	16%
Imperial Tobacco	30%	22%	16%	35%	-22%	6%	0%	24%	12%
Reckitt	25%	22%	22%	25%	-12%	30%	5%	-10%	12%
Pernod	28%	31%	18%	9%	-33%	22%	17%	2%	10%
Henkel	3%	33%	31%	3%	-41%	61%	28%	-4%	10%
Carlsberg	7%	22%	66%	10%	-66%	124%	45%	-27%	9%
Diageo	1%	13%	19%	8%	-11%	13%	9%	19%	8%
Nestle	-4%	32%	10%	20%	-20%	21%	9%	-1%	7%
Danone	5%	30%	30%	7%	-30%	5%	10%	3%	6%
Unilever	-5%	17%	7%	21%	-31%	31%	2%	14%	6%
Heineken	2%	9%	35%	23%	-50%	52%	10%	-3%	5%
Beiersdorf	-11%	21%	42%	8%	-21%	9%	-10%	6%	4%
L'Oreal	-14%	12%	21%	29%	-36%	25%	7%	-3%	3%
Euro Stoxx 600	10%	23%	20%	5%	-46%	23%	0%	-18%	-1%
Beverages	12%	17%	24%	13%	-30%	56%	17%	7%	12%
Food & HPC	-4%	23%	16%	20%	-26%	25%	7%	1%	6%
Tobacco	19%	35%	14%	36%	-13%	12%	16%	24%	17%

Source: DataCentral, CIRA

Note: sector share performance is based on weighted average by company market caps

What about Brazil?

The sharp depreciation of the Real and recent Federal Excise Tax increase announcement have caused some investor concern and uncertainty on the outlook for Brazil.

We have cut our LatAm North EBITDA forecasts by 12% (2013), with a 4% impact on EPS (partly offset by upgrades on the US).

Half of the downgrade reflects the translational impact of the weaker Real, but we have also taken a cautious view on underlying growth in 2013, although it is difficult at this stage to quantify the impact of the tax increase and of the transaction FX headwind. It could well be that we turn out to be too conservative.

Real depreciation

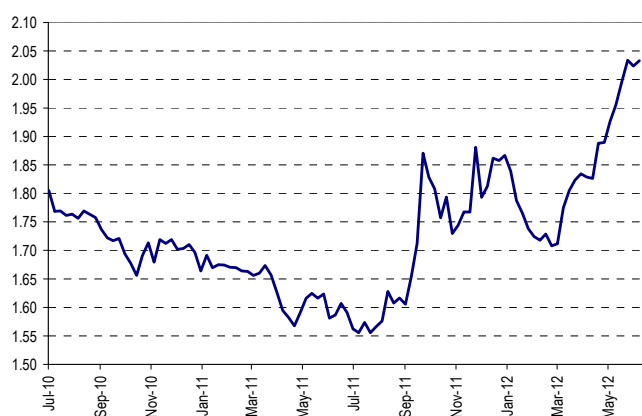
The Brazilian Real has depreciated more than 30% against the dollar since August 2011, as shown in Figure 16.

Most of the **translation effect** has been already factored into consensus, but the 6.5% move in the Real since the beginning of May (when we last updated our model) has cut our EPS by 2%.

ABI faces a **transactional impact** too, as around 55% of its COGS in Brazil are dollar-denominated (predominantly barley and aluminium purchases). We don't expect any negative impact until 4Q12, however, because ABI hedges its currency exposure about 12 months forward.

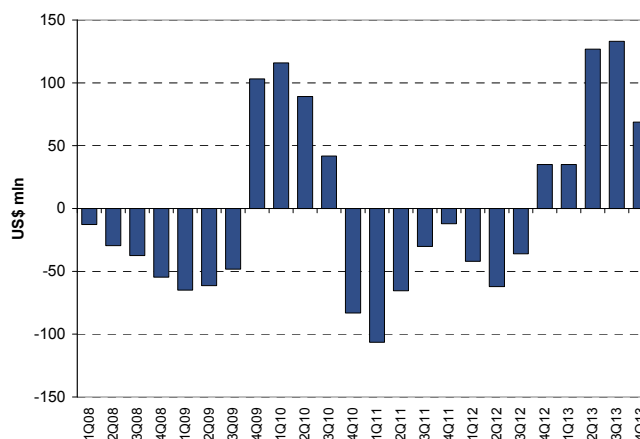
We have calculated that the FX headwind on COGS in 2013 should be around \$360m⁷ (we illustrate this in Figure 17), which is about 10% of Brazilian COGS. Given ABI's high gross margins, this wouldn't require more than 3% pricing to pass on.

Figure 16. BRLUSD exchange rate (July 10 – present)



Source: DataStream, CIRA

Figure 17. ABI Brazil – Estimated transactional FX headwind on input cost purchases (US\$ mln)



Note: a positive value suggest a headwind on input cost purchases
Source: Company reports, DataCentral, CIRA estimates

However, it could be less negative than that. **The underlying dollar cost of barley and aluminium is likely to be lower in 2013**, as grain and commodity prices are coming down, given the concerns on global growth. There is a natural hedge, in this sense, as emerging market currency movements tend to be fairly correlated to commodity prices.

FET increase

On 31 May the Brazilian Government announced that it will raise FET on beer (and soft drinks) in October by around 27% and that it will change the way the tax is levied, with a larger variable component going forward.

ABI has always said that it would pass any tax increases on to the consumer in full. It will **need to raise prices by around 5%** on average to do so.

What will be the impact?

It is difficult at this stage to quantify the impact on profit of the tax increase and transactional FX headwind, as it will depend very much on where underlying prices of raw materials will be, the shape of the Brazilian economy and what ABI decides to do in pricing.

Having said that, we do expect a slowdown in growth in Brazil in 2013, as we believe volume could be impacted⁸ by likely double digit price increases at consumer level. We have reduced our 2013 organic EBITDA growth estimate from 12% to 8%, which seems conservative enough. To put this into context, profit in Brazil has always grown double digit in the last 8 years, except in 2008, when it was up 2%.

⁷ The calculation simplistically assumes that the hedge rate in each period is the average spot rate of the same period 12 months earlier. In reality we expect ABI's hedging to be smarter than that.

⁸ We now estimate 2% beer volume growth in 2013.

Details of our changes to forecasts for LatAm North can be found on page 26.

What is certain is that ABI has plenty of options to deal with the headwinds:

- **It has pricing power in Brazil** – With close to 70% market share, it can decide to pass on the headwinds in full and take net pricing on top of that. In 2011, for instance, ABI increased prices well above inflation (resulting in nearly 10% price/mix), to compensate for the market volume slowdown. It lost some share, but ended the year with 15% EBITDA growth. In any case, **we would expect competitors to follow ABI's pricing**, because they are in the same situation in terms of FX headwinds and tax and both Kirin and Heineken seem to be pursuing a value rather than volume strategy in Brazil.
- **We expect management to work even harder than usual to take costs out.** When 2013 budget discussion take place, Brazilian management will be expected to come up with a number of "efficiency" proposals to mitigate the headwinds.

Changes to Estimates

We have made a number of changes to our forecasts (detailed on page 26 to page 27), mainly to factor in:

- Our increased confidence on the profit outlook in the US. We now forecast 4.5-5% organic EBITDA growth for North America (previously 3-3.5%)
- The depreciation of emerging market currencies: besides the Real, other currencies have moved against ABI, including Ruble and Mexican Peso.
- A more conservative view on underlying growth in Brazil, as we have just said

The net result is a **reduction of 2-2.5% to our EPS estimates for FY12-14**. We're broadly in line with consensus.

Valuation / price target

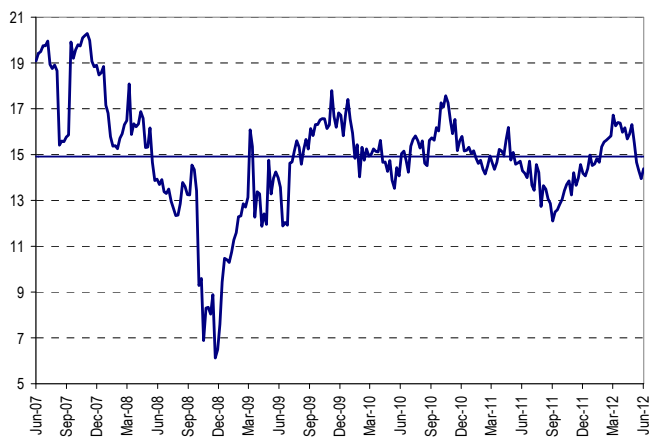
ABI's valuation is compelling, we believe, on 14.0x CY13E PE (14.4x 12-month forward).

Figure 18 shows that ABI is trading below its 5 year forward PE average and Figure 19 shows the discount to a selected group of blue chip consumer staples has widened to 11%. The average discount over the past 5 years has been 4%.

Our €63 price target assumes that in 12 months time the valuation gap vs peers will have returned to its average level of 4%, as we believe the market has digested the newsflow on Brazil and investors will get more confident about the outlook for US profit.

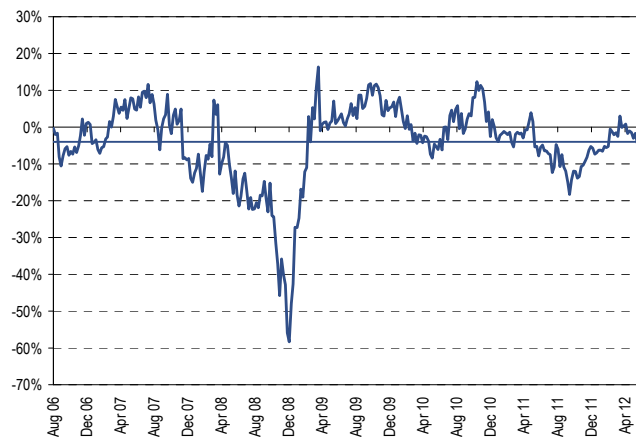
In other words, we expect ABI's 12 month forward PE multiple to re-rate by about 7% over the next 12 months, to 15.4x, but by then applied to June-14 earnings. Given our \$5.16 estimate for June-14 EPS, this implies a fair value of \$79.4 or €63.5 (at 1.25 exchange rate), which we round to €63.

Figure 18. ABI – 12 months forward PE multiple



Source: DataStream and CIRA

Figure 19. ABI – PE Discount / Premium vs. Global Peer Group, August 2006 – present (12-month forward PEs)



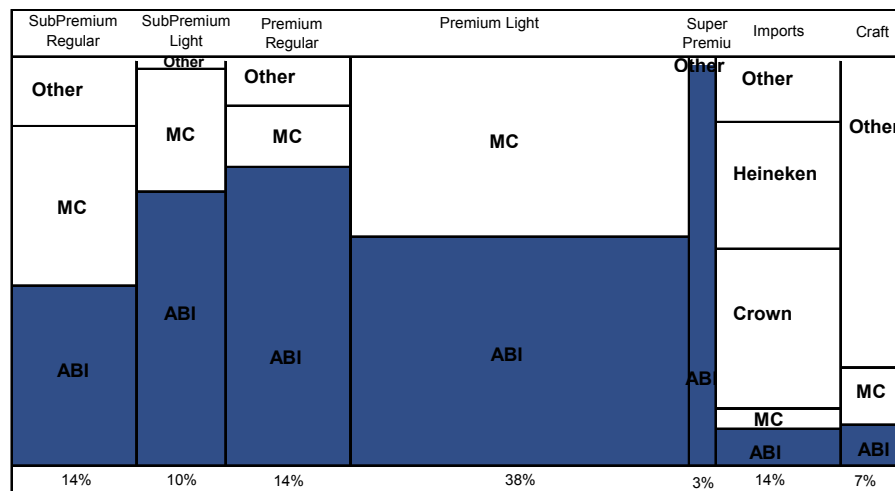
Note: Global peers include Nestle, P&G, Coca-Cola, SABMiller, PepsiCo, Kraft and Diageo

Source: DataStream, CIRA

Mix Opportunity in the US

In essence, ABI's portfolio is extremely underrepresented in the profitable high end segment and conversely over-indexes SubPremium (Figure 20), where margins are lower. This has already been changing, but we expect further rebalancing given that the agenda for the US has clearly shifted to top line. We also expect further margin enhancing innovation around ABI's core Premium brands. Platinum is an example.

Figure 20. US beer market shares by segment



Note: ABI, AC Nielsen, CIRA

There are 3 distinct components to the mix story in our view:

1. Growing at the high end in Imports and in Craft
2. Shrinking the low-end
3. Trading consumer up with higher-priced and line extensions

In aggregate, we estimate that brand mix will almost \$800m gross profit over the next 5 years (and more in the longer term).

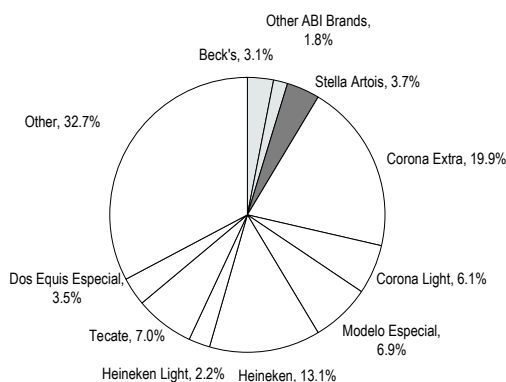
Growing at the high end

Increasing participation in the high end segment is the most significant aspect of the mix story in our view.

- The segment is considerably more profitable than mainstream, as we show in Figure 7 and
- ABI is significantly under-represented, with an estimated share of about 9% in Imports (Figure 21) and 7% in Craft⁹. This compares to ABI's total US beer share of around 48%.

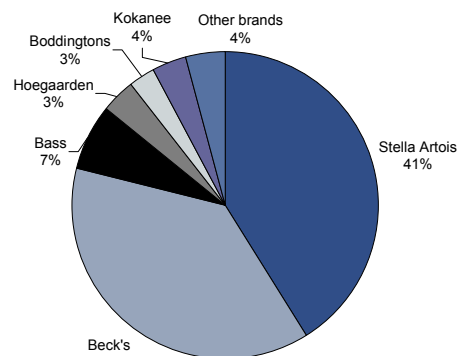
⁹ Definitions of the Craft segment normally only include small breweries. On this basis Craft volume is about 5.5% of the total US beer (13 mln HL). Including ABI's and MillerCoors' craft volume we believe the segment is closer to 17 mln HL.

Figure 21. US import segment: volume breakdown by brand (52 weeks to Apr-12)



Source: AC Nielsen, CIRA analysis

Figure 22. ABI's import brand portfolio (volume breakdown, 2011)



Source: AC Nielsen, CIRA

Imports – Significant growth ahead for Stella

ABI's Import portfolio comprises several brands, as we show in Figure 22, but the focus is very much Stella Artois and, on a much smaller scale, the specialty beers Hoegaarden and Leffe.

Stella's volume has grown 20-25% per annum over the past two years, taking share primarily from Heineken and from wine and spirits. We believe around **20% should be sustainable over the next few years**, because:

- Stella's is still only 1/4 of the size of the Heineken brand¹⁰
- Consumer awareness of Stella is still low, at below 50%
- Geographically the brand is under-represented in the Central states, like most import brands however

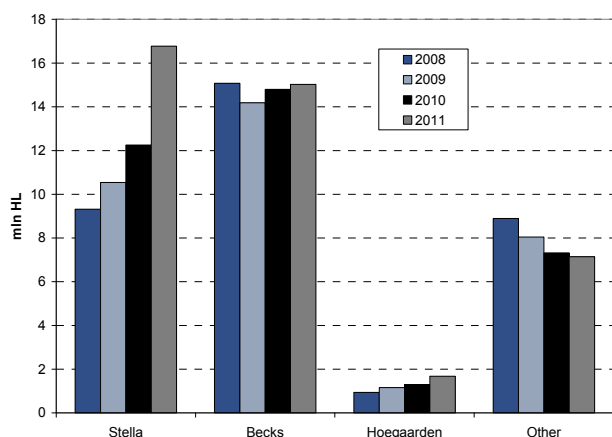
We don't expect management to chase volume growth for the sake of it, however, particularly given what happened to the brand a few years ago in the UK.

Stella is one of the most premium import beers in the US, retailing at 20% price premium to Heineken and 80% above Bud Light and management is very conscious about maintaining its high end image, letting the brand grow as consumers discover it.

Stella is still only 1/4 of the size of Heineken

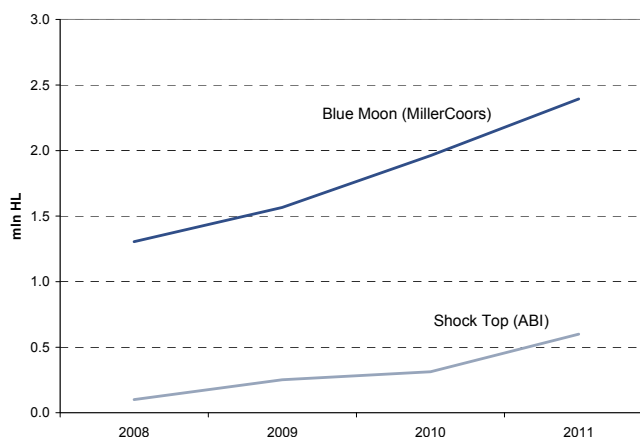
¹⁰ In volume terms. Includes Heineken Premium Light

Figure 23. Stella Artois, Beck's, Hoegaarden and other ABI import volumes (2008-11)



Source: AC Nielsen, Impact, CIRA

Figure 24. Shock Top vs Blue Moon volume growth (2008-11)



Source: AC Nielsen, Impact, CIRA estimates

From a much smaller base, Belgian specialty brands **Hoegaarden** and **Leffe** have been growing very fast too (Hoegaarden +20% volume CAGR since 2008, as illustrated in Figure 23). We expect this trend to continue, as both brands are positioned in the industry sweet spot thanks to their craft credentials.

Beck's gets much less focus

Beck's however has been growing at a much more pedestrian rate: 3% CAGR over the past 2 years, following a 6% decline with the recession in 2009, according to Nielsen. Although Beck's in the US is roughly the same size of Stella, it gets much less media and sales support, as management has decided to focus only on one key brand. We don't expect this to change in the foreseeable future.

Shock Top driving growth in Craft

In the Craft space, ABI competes primarily with 3 brands:

- **Shock Top** – Shock Top is a flexible brand spanning various sub-segments (including Belgian White, Wheat IPA, Shandy), with a quirky/rebel image. It's positioning is similar to Blue Moon's (MillerCoors), but with around 600k HL, Shock Top is only 1/4 of the size of Blue Moon, albeit growing very fast. Shock Top is available nationally and is a high priority for ABI, so the brand is receiving considerable sales, media and innovation support.
- **Landshark** – Landshark is a lager, positioned à la Corona, with a beach/island image and a similar price point to Corona. Landshark is roughly half the size of Shock Top, with about 300k HL and its growth rates have been nowhere near as explosive (+5% in 2010 and +14% in 2011, according to Nielsen).
- **Goose Island** group of brands – In April 2011 ABI acquired Goose Island, a Chicago based craft brewer with a number of brands, including Honker's Ale and 312 Urban Wheat Ale.

Craft is more local than mainstream or import beers. We believe ABI may look to complement its craft portfolio with an acquisition or two in important craft territories where it currently has a limited presence, like the West Coast states or the Carolinas, in a similar way as it did with Goose Island. Potential deals in the space are unlikely to be material however.

We expect 25% growth for ABI in Craft going forward

ABI's craft brands in aggregate have been growing organically in excess of 30% CAGR in the past two-three years, we believe, and Goose Island has been growing fast too. We think it is reasonable to project around 25% CAGR going forward, because:

- The segment is still growing at double digit rate (+13% volume growth in 2011, +12% in 2010)
- The high-end segment is a top priority for ABI
- ABI's distributors are "hungry" for craft brands
- With around 1.2m HL, ABI's volume in Craft is currently less than 1/3 of MillerCoors's, on our calculation.

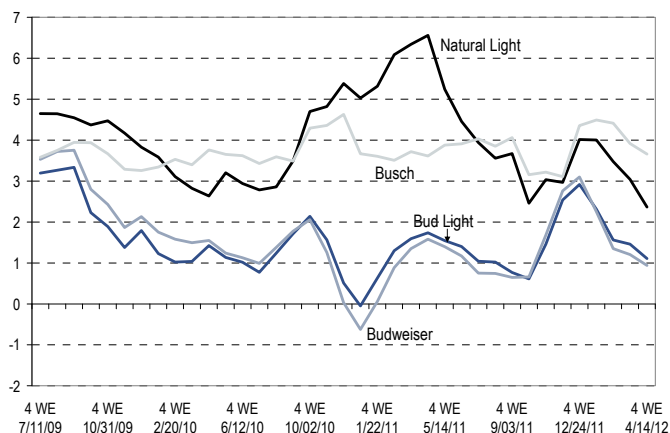
Shrinking the low end

SubPremium brands make up as much as 28% of ABI's US volume.

For the past three years ABI has focused on reducing the price gap between Premium and SubPremium and MillerCoors has done exactly the same thing.

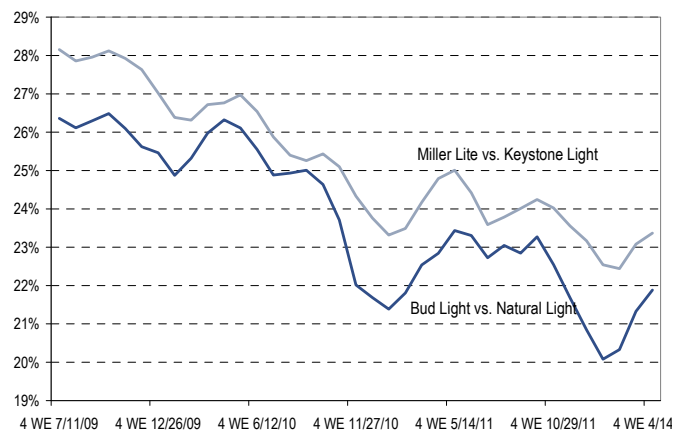
- Figure 25 shows that pricing on SubPremium brands (Busch and Natural Light) has consistently exceeded that on Bud Light and Budweiser since 2009.
- Figure 26 shows that the price gap between ABI's Premium and SubPremium brands has narrowed from 26-27% to around 22% (and MillerCoors' price gap has narrowed too).

Figure 25. ABI US – Price/Mix on Key Brands



Source: ACNielsen, CIRA

Figure 26. Price Gap between Premium and SubPremium Brands for ABI and MillerCoors



Source: ACNielsen, CIRA

This has resulted in low to mid single digit volume declines for the SubPremium segment, partly to the benefit of Bud Light and Budweiser, as consumers have less incentive to trade down (or more incentive to trade up, depending on how you look at it).

SubPremium's share has declined by about 1% p.a. since ABI and MillerCoors started narrowing the price gap

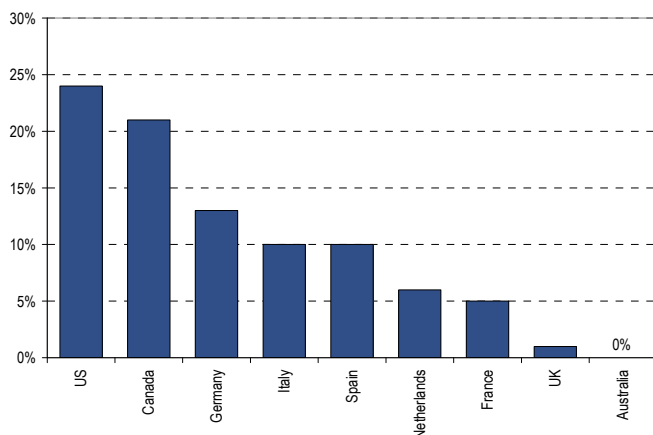
We estimate that gross profit per HL is more than 50% higher on premium brands than on SubPremium (Figure 32)¹¹, so the trade up is very profitable for ABI.

SubPremium's share of ABI's portfolio has declined by about 1 point per annum (Figure 28) since ABI and MillerCoors focused on narrowing the price gap and there are good reasons to believe the trend should continue:

- The value segment is still much larger in the US than in most other developed markets (Figure 27)
- Compared to the industry, ABI's portfolio is even more skewed to SubPremium
- Management has said it aims to reduce the gap between Premium and SubPremium prices to 15-20%, in line with most other FMCG categories

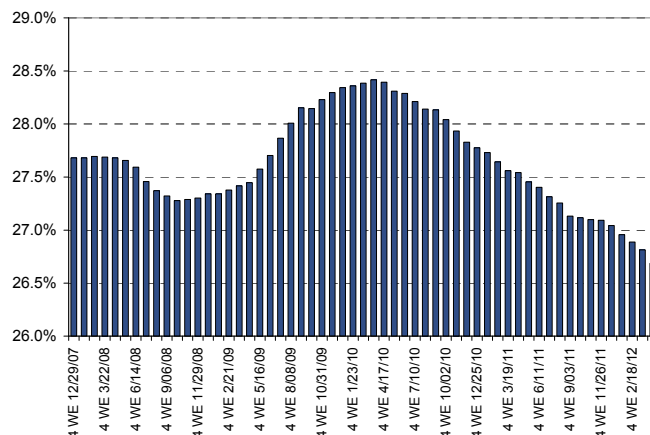
Having said that, we believe the process will be gradual. SubPremium brands absorb limited marketing dollars and they play an important role particularly in Central US. We think pricing on SubPremium will be pushed more aggressively in the regions where ABI has a stronger high-end presence, like the East Coast, but not everywhere.

Figure 27. Value Segment as % of Total Volumes for Selected Beer Markets (2010)



Source: Euromonitor, CIRA

Figure 28. SubPremium Segment as % of ABI's total volume (12 months moving average)



Note: The chart doesn't take account of smaller SubPremium brands. In total we estimate SubPremium to account for around 30% of ABI's volume.

Source: AC Nielsen and CIRA

In the very long term, we see no structural reason why the value segment shouldn't contract to around 15% of the market, which would still be higher than most other developed countries, but in the meantime we assume SubPremium will continue to lose around 1 point of share per annum.

¹¹ Less at EBIT level, however

We expect a more steady flow of innovation going forward

Innovation "in the middle"

The third area where we see scope for mix benefits is through price/margin accretive innovation and/or line extension on the core brands.

Whilst we don't expect a Bud Light Platinum launch every year, we do expect a more steady flow of innovation than in recent years because:

- **The agenda in the US has clearly shifted to top line**, following two-three of integrating A-B and delivering on cost synergies.
- **ABI has rebuilt a strong innovation pipeline**, as evidenced by the new products launched in 2012. When ABI took over A-B, the innovation pipeline was empty and it has taken a couple of years to refill it, as this has involved identifying consumer needs/occasions, testing the products and so on.

We estimate that innovation on ABI's core brands will add around 3.5-4m HL on an annualized basis in 2012 (= 1.5-1.7% market share), mostly but not exclusively driven by Platinum. A lot of this volume won't be incremental, but will come from ABI's Premium brands. The trade up is nevertheless a profitable one, as we estimate ABI makes around \$88/HL in gross profit on Premium+ (which includes brands like Bud Light Lime and Platinum) vs \$66 on its core Premium brands (Bud Light and Budweiser).

Going forward, we expect a more regular flow of innovation than in the past, including on packaging, with a Platinum-like blockbuster launch every 2-3 years.

On this basis we think it is reasonable to assume that on average 3% of Premium brands' volume (1.8 million HL) can be traded up each year through innovation. This would drive 12% growth p.a. in the Premium+ segment.

Bud Light Platinum's success

Bud Light Platinum is ABI's biggest launch since Bud Light Lime in 2008 and the results after a few months have been positive.

- Platinum was launched at the end of January and in four weeks it had achieved 90% distribution and over 1% market share, highlighting the power of having over 500 distributors getting behind the brand.
- Four months into the launch, Platinum's share is around 1.3-1.4% (based on Nielsen), in line with what Bud Light Lime achieved (Figure 29), although the latter was launched just ahead of the peak summer season (May 2008). Management said at the end of April that repeat purchases for Platinum were good.
- We don't think cannibalization rates of ABI's core brands are particularly high. Figure 30 shows that the rate of market share loss of Bud Light and Budweiser hasn't substantially deteriorated since Platinum was launched in January. We believe Platinum is sourcing its growth also from MillerCoors' brands and from spirits.
- The initial phase of the Platinum launch focused on the grocery channel. ABI intends to target the on-trade more aggressively going forward, which we think makes sense given the brand's positioning.

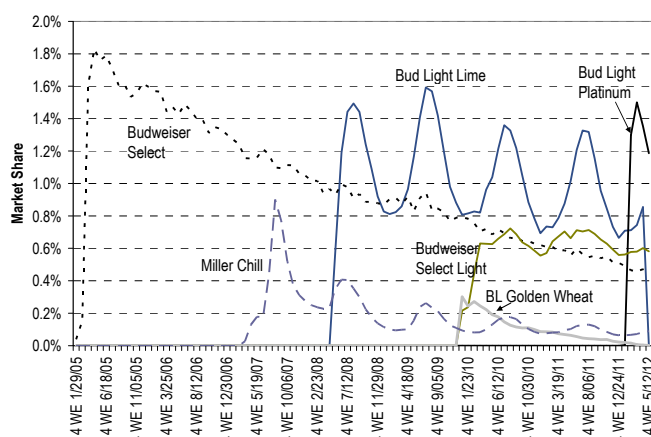
- Platinum is priced at a 15-20% premium to Bud Light. COGS are a bit higher, because of the more premium packaging and slightly higher malt content, but overall we estimate that Gross Profit per HL is considerably higher than on Bud Light (\$88 vs \$66, as we show on Figure 32).

Why is Platinum working?

Mainly for 2 reasons, in our opinion:

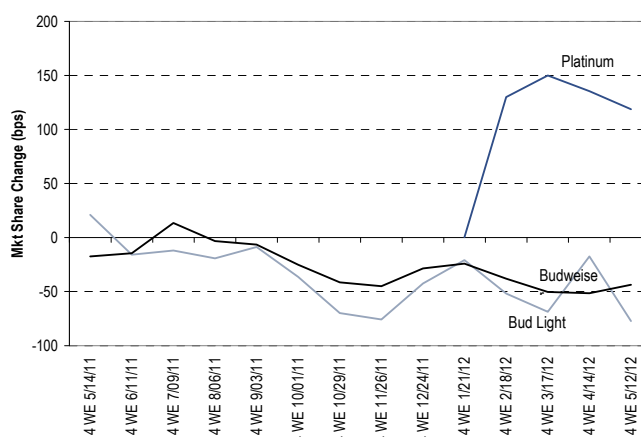
1. It has successfully tapped into a slightly different "consumer need/occasion" (higher alcohol content, slightly sweeter taste, more premium image for nightlife occasions) without moving away from the essence of the mother brand Bud Light (fun, sociability). Bud Light Lime managed to do the same, but Golden Wheat (launched at the end of 2009 and retired a few months ago) failed to do so, we believe because its "craft" positioning didn't fit with the Bud Light brand.
2. It has the strong support of ABI's distribution machine

Figure 29. Life-Cycle Market Shares of Main New Brand Launches in US beer



Source: AC Nielsen, CIRA

Figure 30. Platinum Cannibalization of Bud Light and Budweiser (YoY change in market share, volume)



Source: AC Nielsen, CIRA

Other innovation

As we said, 2012 has seen a significant step up in new product launches compared to previous years. Besides Platinum, ABI has launched:

- **Bud Light Lime-A-Rita**, a margarita flavoured malt based beverage, with 8% ABV. According to Nielsen the brand has taken 20-30bps of share in its first month, but given its seasonality, we would expect a lower market share than that on an annualized basis.
- **Michelob Ultra Light Cider**, ABI's first launch in the fast growing US cider category
- **Michelob Ultra 19th Hole** (flavoured with Tea & Lemonade)
- **Shock Top Wheat IPA**
- **Shock Top Lemon Shandy**

Quantifying the benefit

We estimate brand mix will add nearly \$800m to US gross profit over the next 5 years, contributing about 3% to US EBIT growth on average each year.

In this section we show how we get to this figure, going through 4 steps:

1. we start from ABI's 2011 US volume split
2. we then estimate profitability by segment (gross margin and gross profit/HL)
3. we project 5 years volume growth for each segment
4. we apply our profitability estimates to 2016 projected volume split to derive a "mix" benefit

1. Volume split by segment

In Figure 31 we show ABI's 2011 volume split by price segment¹², with the relative price points. ABI's limited exposure to the high-end is evident.

Figure 31. ABI US volume split by price segment

	Vol ('000 HL) 2011	Vol Split 2011	Rel Price Point (Bud Light 100)	Main Brands
Import	3,162	3%		
Stella	1,296	1%	180	Stella
Other imports	1,866	2%	140	Beck's, Hoegaarden, Leffe, Bass
Craft	1,223	1%	155	Shock Top, Landshark, Goose Island
Premium+	11,846	10%	120	Michelob family, Bud Light Lime
Premium	66,860	58%	100	Bud Light, Budweiser
Sub premium	33,059	28%	77	Natural, Busch (regular and Light)
Total	116,150			

Source: AC Nielsen, company reports, CIRA

2. Profit is higher, the higher the price point

In Figure 32 we calculate gross profit / HL for each segment, starting from the price points (which we know, mainly from Nielsen) and by estimating relative unit COGS. The bar charts on Figure 7 provide a clearer representation of revenue/HL (total length of the bars) and gross profit/HL (the darks portion of the bars).

Figure 32. ABI US – Calculation of profitability (gross profit/HL) by segment

	Indexed to Bud Light price = 100			Gross Margin 2011	ABI US, 2011 (US\$ mln)			Gr.Profit / HL (US\$) 2011
	Price point	COGS	Gross Profit		Volume	Sales	Gross Profit	
Stella	180	68.0	112	62.2%	1,296	283	176	136
Other Imports	140	67.0	73	52.1%	1,866	345	180	96
Craft	155	52.0	103	66.5%	1,223	213	142	116
Premium+	120	48.0	72	60.0%	11,846	1,728	1,037	88
Premium	100	44.5	55.5	55.5%	66,860	7,918	4,394	66
SubPremium	77	41.5	35.5	46.1%	33,059	3,023	1,394	42
Total ABI US	101	45.5	55.5	54.2%	116,150	13,509	7,327	63

Source: Nielsen, CIRA analysis

¹² Within Imports, we split Stella from other brands. Stella is more profitable and we expect it to grow much faster. In Premium+ we include brands like Michelob Ultra, but also Bud Light's higher priced line extensions, like Bud Light Lime and Platinum (Platinum has zero volume in 2011, of course).

- Relative **price points** vary from 180 on Stella to 100 on Bud Light (Premium), down to 77 for SubPremium (or in \$-terms from \$218/HL on Stella to about \$91 on Natural and Busch).
- **Production costs however don't vary much across segments**, as we summarize in Figure 33.
 - COGS on import brands are a bit higher as these have to be shipped across the Atlantic (at a cost of about \$20/HL, we estimate) and because they are mostly sold in bottles.
 - COGS on subpremium brands are a bit lower (but not substantially) than Premium, because the format is essentially always cans.
- **Unit profitability (gross profit/HL), as a result, is considerably higher on the more premium brands¹³**, as can be seen in Figure 32. For instance, we estimate that:
 - Stella's gross profit/HL is almost double that of Bud Light
 - Platinum's gross profit/HL is about 30% higher than Bud Light's and
 - SubPremium profitability per HL is 2/3 of Bud Light's.
- The difference in profitability is lower at EBIT level, however, as ABI's marketing spend is skewed toward Bud Light and Budweiser (the 2 brands get almost 70% ABI's marketing money, according to Kantar, and this excludes their line extensions) and Stella (which receives about 6% of total media spend). Natural and Busch get very limited marketing support. We take this into account in Figure 36, where we factor in a structural increase in the marketing budget.

Figure 33. Summary of differences in Production Costs by price segment

Cost component	Comment
Liquid	There is little difference in the cost of the liquid. Some craft beers may have slightly more premium variants of grains and hops; higher alcohol beers (Platinum) contain slightly more malt, but the differences overall are not substantial
Packaging	Import and craft brands are mostly sold in bottles, whereas Premium is both in bottles and cans and SubPremium brands are almost exclusively packaged in cans. Cans are a bit cheaper than bottles.
Transportation Costs	ABI's import brands are "imported" from Europe, which adds about \$20/HL to the cost, we estimate
Fixed Costs	Fixed costs (labour, depreciation) are similar across the different segments, but lower than for competitors, as ABI's can achieve better economies of scale in production (even more so in terms of G&A per HL).

Source: CIRA

3. We expect high-end to grow much faster than the rest

In Figure 34 we show 5-year volume growth projections and explain what assumptions underpin our forecasts. Our projections look reasonable, in our opinion, because:

- **They imply -0.3% volume decline for the portfolio as a whole in year-1.** In the following years the growth rate improves a little (+0.4% CAGR), as the portfolio mathematically reweights gradually to the higher growth segments.

¹³ The differences in profitability are even more significant in spirits, where for instance Ciroc vodka in the US sells at more than 3x the price of Popov. Even more extreme, some variants of Super/Ultrapremium Scotch in emerging markets sell at 10x, 20x, or even more, the price of cheap local spirits.

- We forecast **Stella** volumes will more than double on a 5 year view, but to put this into perspective, Stella in 2016 would still only be around 1/2 of the size of Heineken.
- The fast growth we assume in Premium+ is driven by innovation on ABI's core brands. It assumes that on average 3% of Bud Light or Budweiser volume is traded up every year through innovation and line extensions. This is reasonable, as it is only half the likely innovation benefit for 2012.

Figure 34. ABI US volume growth (2011-16) assumptions by segment

	Vol ('000 HL) 2011	5 year CAGR 11-16	Vol ('000 HL) 2016	Volume Split 2016	Comment / Assumption
Stella Artois	1,296	20%	3,225	2.7%	Stella has been growing at around 25% in past 2 years. Even with 20% CAGR, Stella would still only be about 1/2 the size of Heineken brand in 2016
Other imports	1,866	2%	2,060	1.7%	Recent growth has been lackluster, particularly for Beck's, but Hoegaarden and Leffe are growing fast
Craft	1,223	25%	3,732	3.1%	Craft has been growing >30% for ABI as of recent and Shock Top almost doubled in 2011. The brand is still 1/4 of the size of Blue Moon, so it has significant potential.
Premium+	11,846	12%	20,877	18%	Assumes that each year about 3% of Bud Light/Budweiser volume (1.8 mln HL) is traded up through innovation. In 2012 the innovation benefit will be more like 3.5-4 mln HL
Premium	66,860	-1.5%	61,994	52%	Assumes the Premium segment "loses" volume to Premium+, but gains from SubPremium
SubPremium	33,059	-4%	26,955	23%	Assumes SubPremium brands lose 6% share in ABI's portfolio over 5 years, broadly consistent with recent trend

Source: CIRA

4. We estimate the mix benefit at almost \$800m

To capture the brand mix effect on Gross Profit, we apply our gross profit/HL estimates (for 2011) to the 2016 volume split. This way, we strip out any impact from price or cost inflation.

We do this in Figure 35, which shows that the potential incremental gross profit from mix is \$784m over the next 5 years¹⁴. Put it into context, this is about 15% of ABI's 2011 US EBIT (\$5,049m) and it worth 2.9% to annual EBIT growth.

Figure 35. ABI US – 5 year potential gross profit benefit deriving from brand mix

	Volume 2011 ('000 HL)	Gross Profit 2011 US\$ mln	GP/HL 2011 US\$	GP/HL 2016E US\$	Volume 2016E ('000 HL)	Gross Profit 2016E US\$ mln	Incremental Gross Profit 2011-16E
Stella	1,296	176	136	136	3,225	437	262
Other Imports	1,866	180	96	96	2,060	198	19
Craft	1,223	142	116	116	3,732	433	291
Premium+	11,846	1,037	88	88	20,877	1,827	790
Premium	66,860	4,394	66	66	61,994	4,074	-320
SubPremium	33,059	1,394	42	42	26,955	1,136	-257
Total ABI US	116,150	7,322	63.0	68.2	118,843	8,106	784

Source: Company reports, CIRA estimates

¹⁴ A small portion of this (\$180m) is actually volume driven and comes from the fact that our volume growth forecasts by segment imply a slight increase in total volume over the 5 year period (although growth is negative in year-1 and year-2). This is because as the high-end grows faster, the portfolio is gradually reshaped towards the faster growing segments.

ABI can sustainably grow US EBIT at 5%

There are other profit drivers too besides mix, including pricing and cost control. In this section we show in more detail than on page 8 why we believe EBIT growth of at least 5% per annum is sustainable, even without any volume growth.

Figure 36. ABI US P&L – Sustainable EBIT growth model

	ABI US 2011	Growth rate typical year	ABI US year 1	Comments
Volume (mln HL)	116.2	-0.3%	115.8	-0.3% is the weighted average of our segment growth rates in Figure 34
Pricing (excludes mix)		2.0%		We think pricing at inflation is sustainable and we expect ABI to take more pricing this Autumn
Package mix		0.3%		Consumers "trading up" to smaller pack sizes in a more favourable economy. Excludes brand mix
Sales ex brand mix (\$ mln)	13,509	2.0%	13,779	This is sales growth EX brand mix. Brand mix adds about 110bps to this sales growth figure, but we don't consider it here, as we add the mix benefit directly to EBIT
COGS (\$ mln) (a + b)	(6,182)		(6,272)	
(a) Raw Mats & Packaging (\$ mln)	(4,121)	1.7%	(4,191)	Slightly below RMP/HL inflation, given volume decline
RMP/HL (\$)	(35.5)	2.0%	(36.2)	We assume that in a "normal" year input costs grow in line with inflation
(b) Fixed COGS (\$ mln)	(2,061)	1.0%	(2,081)	Assumes ZBB and tight cost control keep fixed cost inflation at 1 point below inflation
Gross Profit excluding mix (\$mln)	7,327		7,507	2.5% gross profit growth doesn't include brand mix benefit
Brand Mix benefit on EBIT		2.9%	148	Annual brand mix benefit, consistent with what we calculate in Figure 35
G&A	(833)	1.0%	(841)	Assumes ZBB and tight cost control keep fixed cost inflation at 1 point below inflation
Sales & Marketing	(1,445)	+30bps as % of sales	(1,516)	Assumes sales and marketing increases by 30bps as % of sales in a typical year (2011 10.7%) Portfolio evolution towards "growth" segments should drive higher A&P, mitigated by efficiency gains
EBIT	5,049	4.9%	5,298	We view this as a sustainable US EBIT growth figure. It doesn't include any potential benefits from wholesaler network savings

Source: Company Reports and CIRA

The main assumptions are:

- Slight volume decline (-0.3%), consistent with our analysis on Figure 34.
- Pricing in line with inflation at 2%, which we believe is sustainable given the structure of the market and because we expect Crown and Heineken to start taking pricing again this autumn.
- Fixed costs increases at one point below inflation (1%) and raw materials and packaging increases in line with inflation (2%)
- Marketing spend increase of 30bps per annum, as a percentage of sales
- Brand mix contributing 2.9% to EBIT growth (\$148m), consistent with our analysis

The following table shows the main P&L sensitivities. Pricing is the most important variable (every point of price is worth 2.4% to EBIT growth).

Figure 37. ABI US P&L – Sensitivity analysis

Assumption	Impact vs base case of +4.9% EBIT growth
Fixed costs flat (instead of +1%)	+0.6%
Sales & marketing +40bps (instead of +30bps)	-0.2%
Pricing at 3% instead of 2%	+2.4%
Volume growth of -1.3% (vs -0.3%)	-1.5%
Raw materials and Packaging inflation +3% (instead of +2%)	+0.8%

Source: CIRA estimates

Changes to Estimates

We have made several changes to our forecasts, mainly to factor in:

- Our increased confidence on the outlook for US profit
- The deterioration in the emerging market FX environment (besides the Real, other currencies have moved against ABI too, including the Ruble and the Mexican Peso) and weakening of the Euro.
- A more conservative view on underlying profit growth in Brazil, because of transactional FX headwinds and beer duty increases which we believe will impact next year. We have reduced our organic EBITDA forecast for LatAm North from 12% to just over 8%, as we show in Figure 39. Not all the Brazil downgrade hits the bottom line, as a large portion (38%) goes to minority shareholders.

All in, **we have reduced our EPS forecast by 2-2.5%**. We are in line with Reuters consensus but we suspect we are below consensus on Brazil, but above on the US.

Figure 38. AB-InBev – Changes to Citi Estimates (USD in Millions)

	2012E			2013E			2014E		
	New	Old	Change	New	Old	Change	New	Old	Change
Revenue									
North America	15,772	15,837	-0.4%	16,147	16,175	-0.2%	16,600	16,549	+0.3%
LatAm North	11,139	11,728	-5.0%	11,815	13,212	-10.6%	13,380	14,971	-10.6%
LatAm South	3,132	3,132	+0.0%	3,215	3,217	-0.1%	3,472	3,474	-0.1%
W Europe	3,645	3,776	-3.5%	3,555	3,738	-4.9%	3,512	3,693	-4.9%
C&E Europe	1,768	1,835	-3.7%	1,786	1,884	-5.2%	1,919	2,025	-5.2%
APAC	2,692	2,706	-0.5%	3,030	3,054	-0.8%	3,408	3,435	-0.8%
GEHC	1,509	1,509	+0.0%	1,570	1,570	+0.0%	1,633	1,633	+0.0%
Total Revenue	39,658	40,523	-2.1%	41,117	42,849	-4.0%	43,925	45,781	-4.1%
Normalised EBITDA									
North America	6,844	6,785	+0.9%	7,145	7,002	+2.0%	7,474	7,235	+3.3%
LatAm North	5,589	5,924	-5.6%	5,845	6,666	-12.3%	6,788	7,748	-12.4%
LatAm South	1,437	1,437	+0.0%	1,484	1,485	-0.1%	1,617	1,618	-0.1%
W Europe	1,110	1,153	-3.7%	1,103	1,162	-5.1%	1,110	1,170	-5.1%
C&E Europe	261	270	-3.6%	263	278	-5.2%	279	295	-5.2%
APAC	411	413	-0.5%	466	470	-0.8%	534	538	-0.8%
GEHC	(92)	(92)	+0.0%	(90)	(90)	+0.0%	(88)	(88)	+0.0%
Total EBITDA	15,560	15,890	-2.1%	16,216	16,973	-4.5%	17,714	18,516	-4.3%
Normalised EBIT	12,811	13,080	-2.1%	13,428	14,039	-4.4%	14,779	15,405	-4.1%
Associates	639	673	-5.0%	684	726	-5.8%	739	784	-5.8%
Net Finance Cost	(1,858)	(1,845)	+0.7%	(1,496)	(1,609)	-7.1%	(1,180)	(1,290)	-8.5%
Profit before tax (Excl. Exceptionals)	11,592	11,907	-2.6%	12,616	13,156	-4.1%	14,338	14,900	-3.8%
Tax on ordinary activities	(2,202)	(2,261)	-2.6%	(2,625)	(2,735)	-4.0%	(3,128)	(3,247)	-3.7%
Normalised Tax Rate, before Exceptionals & Associates (%)	20.1%	20.1%		22.0%	22.0%		23.0%	23.0%	
Minorities	(2,121)	(2,217)	-4.3%	(2,186)	(2,411)	-9.4%	(2,482)	(2,742)	-9.5%
Net Profit	7,285	7,444	-2.1%	7,805	8,010	-2.6%	8,728	8,911	-2.1%
Normalised Net Profit	7,270	7,429	-2.1%	7,805	8,010	-2.6%	8,728	8,911	-2.1%
Per Share									
EPS - Adjusted, Basic	4.55	4.65	-2.1%	4.88	5.01	-2.6%	5.45	5.56	-2.1%
EPS - Adjusted, FD	4.54	4.64	-2.1%	4.87	5.00	-2.6%	5.44	5.55	-2.1%
Dividend (€)	1.75	1.80	-3.2%	1.90	2.00	-4.9%	2.20	2.30	-4.5%
Basic Shares Outstanding	1,597	1,597	+0.0%	1,599	1,599	+0.0%	1,602	1,602	+0.0%

Source: CIRA Estimates

Figure 39. AB-InBev – Changes to Organic Growth Estimates

Organic Growth Rates	2012E			2013E			2014E		
	New	Old	Change	New	Old	Change	New	Old	Change
Volume by Region									
North America	-0.4%	-0.4%	+0.1%	-0.4%	-0.5%	+0.1%	-0.2%	-0.5%	+0.3%
LatAm North	+3.2%	+3.9%	-0.7%	+2.3%	+3.5%	-1.2%	+4.6%	+5.2%	-0.6%
LatAm South	+2.9%	+2.9%	+0.0%	+2.6%	+2.6%	+0.0%	+2.6%	+2.6%	+0.0%
W Europe	-1.9%	-1.9%	+0.0%	-1.7%	-1.7%	+0.0%	-1.7%	-1.7%	+0.0%
C&E Europe	+0.4%	+0.4%	+0.0%	-0.3%	-0.3%	+0.0%	+3.3%	+3.3%	+0.0%
APAC	+4.5%	+4.5%	+0.0%	+5.5%	+5.5%	+0.0%	+5.6%	+5.6%	+0.0%
GEHC	-1.0%	-1.0%	+0.0%	+2.0%	+2.0%	+0.0%	+2.0%	+2.0%	+0.0%
Total Volume	+1.6%	+1.8%	-0.2%	+1.5%	+1.8%	-0.3%	+2.6%	+2.7%	-0.1%
Revenue by Region									
North America	+3.6%	+3.5%	+0.0%	+2.5%	+2.1%	+0.4%	+2.8%	+2.3%	+0.5%
LatAm North	+8.2%	+9.3%	-1.2%	+8.2%	+10.6%	-2.4%	+11.1%	+11.3%	-0.2%
LatAm South	+20.8%	+20.8%	+0.0%	+14.9%	+14.9%	+0.0%	+13.9%	+13.9%	+0.0%
W Europe	-1.2%	-1.2%	+0.0%	-1.0%	-1.0%	+0.0%	-1.2%	-1.2%	+0.0%
C&E Europe	+5.2%	+5.2%	+0.0%	+2.7%	+2.7%	+0.0%	+7.5%	+7.5%	+0.0%
APAC	+12.9%	+12.9%	+0.0%	+12.9%	+12.9%	+0.0%	+12.5%	+12.5%	+0.0%
GEHC	+1.2%	+1.2%	+0.0%	+4.0%	+4.0%	+0.0%	+4.0%	+4.0%	+0.0%
Total Revenue	+6.2%	+6.5%	-0.3%	+5.5%	+6.1%	-0.6%	+6.7%	+6.7%	+0.0%
Norm. EBITDA by Region									
North America	+4.7%	+3.1%	+1.6%	+4.6%	+3.2%	+1.4%	+4.6%	+3.3%	+1.3%
LatAm North	+10.2%	+12.1%	-1.9%	+8.3%	+12.2%	-3.9%	+13.8%	+14.2%	-0.4%
LatAm South	+21.7%	+21.7%	+0.0%	+15.6%	+15.6%	+0.0%	+14.8%	+14.8%	-0.0%
W Europe	-2.8%	-2.8%	+0.0%	+0.8%	+0.8%	+0.0%	+0.7%	+0.7%	+0.0%
C&E Europe	+20.5%	+20.5%	+0.0%	+2.7%	+2.7%	-0.0%	+6.1%	+6.1%	+0.0%
APAC	+11.5%	+11.5%	+0.0%	+13.7%	+13.7%	-0.0%	+14.5%	+14.5%	-0.0%
GEHC	+3.3%	+3.3%	+0.0%	-1.9%	-1.9%	+0.0%	-2.3%	-2.3%	+0.0%
Total EBITDA	+8.0%	+8.0%	-0.0%	+6.9%	+7.8%	-0.9%	+8.9%	+8.8%	+0.1%

Source: CIRA Estimates

Financial Summary

Figure 40. AB-InBev — Financial Summary, FY07-FY16E (USD in millions)

Profit and Loss / Year to Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E 5-yr CAGR
Net Sales (excludes excise)	19,735	23,507	36,758	36,297	39,045	39,658	41,117	43,925	46,742	49,857 5.0%
EBITDA (adjusted)	6,827	7,811	13,037	13,869	15,357	15,560	16,216	17,714	19,222	20,889 6.3%
Margin	34.6%	33.2%	35.5%	38.2%	39.3%	39.2%	39.4%	40.3%	41.1%	41.9%
Operating Profit (Adj EBIT)	5,361	5,898	10,248	11,165	12,607	12,811	13,428	14,779	16,133	17,626 6.9%
Margin	27.2%	25.1%	27.9%	30.8%	32.3%	32.3%	32.7%	33.6%	34.5%	35.4%
Associates	1	60	513	521	623	639	684	739	798	862 6.7%
EBIT and post tax associates	5,362	5,958	10,761	11,686	13,230	13,450	14,112	15,518	16,931	18,488 6.9%
Net Finance	(818)	(1,413)	(3,790)	(2,811)	(2,597)	(1,858)	(1,496)	(1,180)	(870)	(480)
Exceptionals (Pretax)	511	(745)	692	(1,193)	(818)	24	0	0	0	0
Pretax Profit (post exceptionals)	5,056	3,800	7,663	7,682	9,815	11,616	12,616	14,338	16,061	18,008 12.9%
Tax	(888)	(674)	(1,786)	(1,920)	(1,856)	(2,211)	(2,625)	(3,128)	(3,587)	(4,115)
Underlying Tax Rate	18.4%	18.6%	27.6%	24.8%	20.7%	20.1%	22.0%	23.0%	23.5%	24.0%
Minorities	(1,164)	(1,199)	(1,264)	(1,736)	(2,104)	(2,121)	(2,186)	(2,482)	(2,779)	(3,114) 8.2%
Adjusted Net Profit	2,547	2,511	3,927	5,040	6,448	7,270	7,805	8,728	9,696	10,779 10.8%
Per-Share Data	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E 5-yr CAGR
EPS (Adjusted, diluted)	2.60	2.51	2.47	3.16	4.03	4.54	4.87	5.44	6.03	6.69 10.6%
DPS (US\$ not €)	2.09	0.37	0.50	1.19	1.60	2.19	2.38	2.75	3.13	3.50 17.0%
Number of Dil. Shares Out (Avg)	981	1,000	1,593	1,596	1,599	1,601	1,602	1,605	1,608	1,611 0.2%
Growth Rates (%)	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E 5-yr CAGR
Organic Vol	5.2%	0.0%	-0.7%	2.2%	-0.2%	1.6%	1.5%	2.6%	2.4%	2.6% 2.1%
Organic Sales	7.2%	5.2%	2.5%	4.4%	4.6%	6.2%	5.5%	6.7%	6.5%	6.7% 6.3%
Organic EBIT (adjusted)	20.4%	2.1%	20.3%	13.6%	9.6%	8.8%	7.7%	9.7%	9.1%	9.2% 8.9%
Organic EBITDA (adjusted)	16.5%	4.6%	16.0%	10.6%	7.7%	8.0%	6.9%	8.9%	8.5%	8.6% 8.2%
Sales (Reported)	18.2%	19.1%	56.4%	-1.3%	7.6%	1.6%	3.7%	6.8%	6.4%	6.7% 5.0%
EBITDA	28.4%	14.4%	66.9%	6.4%	10.7%	1.3%	4.2%	9.2%	8.5%	8.7% 6.3%
Operating Profit (Adj)	32.6%	10.0%	73.8%	8.9%	12.9%	1.6%	4.8%	10.1%	9.2%	9.3% 6.9%
Net Profit (Adj)	33.4%	-1.4%	56.4%	28.3%	27.9%	12.7%	7.4%	11.8%	11.1%	11.2% 10.8%
EPS (Adjusted, diluted)	33.3%	-3.3%	-1.8%	28.1%	27.7%	12.6%	7.2%	11.6%	10.9%	11.0% 10.6%
Cash Flow	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E 5-yr CAGR
Operating Cash Flow	6,961	7,622	13,469	13,972	16,078	15,515	16,358	18,065	19,616	21,399 5.9%
Interest	(792)	(849)	(2,776)	(2,768)	(2,304)	(1,505)	(1,211)	(956)	(705)	(389)
Tax	(613)	(1,241)	(1,569)	(1,682)	(1,694)	(2,018)	(2,396)	(2,855)	(3,274)	(3,756)
Capex (inc intangibles)	(1,969)	(2,424)	(1,386)	(2,123)	(3,256)	(3,111)	(3,029)	(3,254)	(3,479)	(3,729) 2.7%
Other (Divs to/from minorities/associates)	(454)	(667)	(714)	(743)	(793)	(493)	(480)	(588)	(691)	(810)
Free Cash Flow	3,133	2,441	7,024	6,656	8,031	8,388	9,241	10,412	11,467	12,715 9.6%
Margin	15.9%	10.4%	19.1%	18.3%	20.6%	21.2%	22.5%	23.7%	24.5%	25.5%
M&A	290	(52,343)	6,399	84	14	(1,240)	0	0	0	0
New Equity	(2,250)	8,967	76	215	155	231	259	290	324	363
Change in Cash Items	541	(43,938)	13,090	4,892	5,317	4,833	6,008	6,888	7,378	8,049
Non-Cash Items	(711)	(5,225)	(1,604)	540	(317)	656	0	0	0	0
Change in Net Debt	(171)	(49,163)	11,486	5,432	5,000	5,489	6,008	6,888	7,378	8,049
End of Year Net Cash/(Debt)	(7,497)	(56,660)	(45,174)	(39,742)	(34,742)	(29,253)	(23,246)	(16,358)	(8,980)	(931)
Ratios	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Interest Cover	6.6	4.2	2.7	4.0	4.9	6.9	9.0	12.5	18.5	36.7
Dividend Payout	0.8	0.1	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Net Debt/EBITDA	1.1	7.3	3.5	2.9	2.3	1.9	1.4	0.9	0.5	0.0
ROIC	15.5%	8.2%	8.6%	9.9%	12.0%	12.4%	12.7%	13.9%	15.2%	16.6%
Historical Multiples	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Historical Av Share Price (€)	49.4	42.1	26.6	40.1	40.8	53.3	54.4	54.4	54.4	54.4
€ / US\$	1.37	1.47	1.39	1.33	1.39	1.27	1.25	1.25	1.25	1.25
Historic Av Mkt Cap (\$ mln)	66,137	61,871	58,804	84,775	90,619	108,499	108,787	108,991	109,195	109,400
P/E	26.1	24.7	15.1	16.9	14.1	15.0	14.0	12.5	11.3	10.2
Dividend yield	3.1%	0.6%	1.4%	2.2%	2.8%	3.2%	3.5%	4.0%	4.6%	5.1%
FCF Yield	4.7%	3.9%	11.9%	7.9%	8.9%	7.7%	8.5%	9.6%	10.5%	11.6%
Historic EV	89,546	87,794	119,958	143,965	153,322	170,501	162,388	155,583	148,079	139,994
EV/EBITDA	13.1	11.2	9.2	10.4	10.0	11.0	10.0	8.8	7.7	6.7

Source: Company Reports and CIRA Estimates

Figure 41. AB-InBev — Organic growth Rates by Division, FY07-FY16E

Organic Sales Growth / Year to Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	FY11-16E CAGR
North America	0.1%	8.4%	0.6%	-1.6%	0.3%	3.6%	2.5%	2.8%	2.8%	2.8%	2.9%
LatAm North	12.0%	4.8%	12.7%	17.1%	8.8%	8.2%	8.2%	11.1%	9.6%	9.8%	9.4%
LatAm South	21.0%	29.4%	15.3%	16.2%	24.7%	20.8%	14.9%	13.9%	13.9%	13.9%	15.4%
W Europe	-3.4%	-1.7%	-1.7%	-3.1%	-5.1%	-1.2%	-1.0%	-1.2%	-1.2%	-1.2%	-1.1%
C&E Europe	22.6%	4.3%	0.8%	-0.5%	5.7%	5.2%	2.7%	7.5%	8.1%	8.1%	6.3%
Asia-Pacific	8.1%	8.1%	2.2%	11.6%	17.1%	12.9%	12.9%	12.5%	12.4%	12.5%	12.6%
GEHC (Global, Export, Holding Co)	-20.0%	-7.8%	-11.5%	6.4%	0.2%	1.2%	4.0%	4.0%	4.0%	4.0%	3.5%
Total Sales	7.2%	5.2%	2.5%	4.4%	4.6%	6.2%	5.5%	6.7%	6.5%	6.7%	6.3%
Organic EBIT Growth / Year to Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	FY11-16E CAGR
North America	7.3%	17.8%	27.5%	9.4%	2.4%	5.6%	5.6%	5.4%	5.0%	4.9%	5.3%
LatAm North	24.1%	-0.7%	13.1%	17.2%	18.0%	10.3%	8.5%	14.2%	12.5%	12.5%	11.6%
LatAm South	36.6%	44.1%	22.3%	16.6%	27.2%	24.1%	15.9%	14.9%	14.8%	14.7%	16.9%
W Europe	-6.8%	-17.3%	32.7%	11.0%	10.1%	-4.1%	2.1%	1.8%	0.8%	0.7%	0.2%
C&E Europe	48.2%	-53.4%	110.4%	-32.8%	-81.4%	163.1%	5.6%	10.5%	29.9%	25.7%	38.0%
Asia-Pacific	4.0%	-2.7%	40.4%	47.7%	23.5%	4.2%	16.5%	20.6%	21.2%	17.8%	15.9%
GEHC (Global, Export, Holding Co)	173.0%	119.0%	-20.7%	29.7%	-9.5%	0.4%	-0.7%	-0.8%	-0.9%	-1.1%	-0.6%
Total EBIT	20.4%	2.1%	20.3%	13.6%	9.6%	8.8%	7.7%	9.7%	9.1%	9.2%	8.9%
Organic EBITDA Growth / Year to Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	FY11-16E CAGR
North America	5.6%	15.6%	23.2%	6.5%	1.5%	4.7%	4.6%	4.6%	4.4%	4.3%	4.5%
LatAm North	20.9%	2.0%	11.7%	16.4%	15.5%	10.2%	8.3%	13.8%	12.2%	12.3%	11.3%
LatAm South	29.1%	37.9%	22.8%	15.9%	24.3%	21.7%	15.6%	14.8%	14.6%	14.5%	16.2%
W Europe	-3.9%	-9.6%	11.8%	6.6%	5.5%	-2.8%	0.8%	0.7%	-0.1%	-0.1%	-0.3%
C&E Europe	32.3%	-22.7%	46.3%	-17.8%	-31.5%	20.5%	2.7%	6.1%	11.1%	10.9%	10.1%
Asia-Pacific	-20.0%	4.3%	19.7%	18.3%	17.2%	11.5%	13.7%	14.5%	14.7%	14.1%	13.7%
GEHC (Global, Export, Holding Co)	129.0%	85.8%	-14.5%	59.7%	-26.9%	3.3%	-1.9%	-2.3%	-2.7%	-3.2%	-1.4%
Total EBITDA	16.5%	4.6%	16.0%	10.6%	7.7%	8.0%	6.9%	8.9%	8.5%	8.6%	8.2%

Source: Company Reports and CIRA Estimates

Figure 42. AB-InBev — Divisional Summary, FY07-FY16E (USD in millions)

Sales / Year to Dec	2007	PF08	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	FY11-16E CAGR
North America		15,571	15,486	15,296	15,304	15,772	16,147	16,600	17,066	17,546	2.8%
LatAm North		7,664	7,649	10,018	11,524	11,139	11,815	13,380	14,950	16,726	7.7%
LatAm South		1,855	1,899	2,182	2,704	3,132	3,215	3,472	3,649	3,835	7.2%
W Europe		4,967	4,312	3,937	3,945	3,645	3,555	3,512	3,470	3,429	-2.8%
C&E Europe		3,267	2,492	1,619	1,755	1,768	1,786	1,919	2,075	2,242	5.0%
Asia-Pacific		2,285	1,985	1,767	2,317	2,692	3,030	3,408	3,832	4,312	13.2%
GEHC (Global, Export, Holding Co)		3,548	2,936	1,479	1,496	1,509	1,570	1,633	1,699	1,768	3.4%
Total Sales	19,735	39,158	36,758	36,298	39,045	39,658	41,117	43,925	46,742	49,857	5.0%
Operating profit / Year to Dec	2007	PF08	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	FY11-16E CAGR
North America		3,769	4,894	5,546	5,710	5,988	6,305	6,643	6,977	7,320	5.1%
LatAm North		3,067	3,056	4,083	5,118	4,927	5,158	6,012	6,896	7,903	9.1%
LatAm South		676	731	849	1,081	1,264	1,311	1,429	1,515	1,606	8.2%
W Europe		505	599	737	856	763	768	782	788	793	-1.5%
C&E Europe		196	281	117	21	52	54	60	77	97	35.9%
Asia-Pacific		243	144	79	86	81	94	114	138	163	13.6%
GEHC (Global, Export, Holding Co)		667	543	(245)	(264)	(264)	(262)	(260)	(258)	(255)	-0.7%
Total EBIT (Adjusted)	5,361	9,123	10,248	11,166	12,608	12,811	13,428	14,779	16,133	17,626	6.9%
EBITDA / Year to Dec	2007	PF08	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	FY11-16E CAGR
North America		4,697	5,868	6,444	6,573	6,844	7,145	7,474	7,800	8,135	4.4%
LatAm North		3,540	3,492	4,780	5,814	5,589	5,845	6,788	7,765	8,876	8.8%
LatAm South		808	875	1,009	1,254	1,437	1,484	1,617	1,711	1,810	7.6%
W Europe		976	983	1,099	1,225	1,110	1,103	1,110	1,109	1,108	-2.0%
C&E Europe		571	599	323	225	261	263	279	310	344	8.9%
Asia-Pacific		452	349	292	356	411	466	534	612	699	14.4%
GEHC (Global, Export, Holding Co)		1,024	870	(77)	(90)	(92)	(90)	(88)	(86)	(83)	-1.6%
Total EBITDA (Adjusted)	6,827	12,068	13,037	13,870	15,357	15,560	16,216	17,714	19,222	20,889	6.3%
EBITDA Margins / Year to Dec	2007	PF08	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	5-yr change
North America	38.2%	30.2%	37.9%	42.1%	42.9%	43.4%	44.2%	45.0%	45.7%	46.4%	3.4%
LatAm North	47.3%	46.2%	45.7%	47.7%	50.5%	50.2%	49.5%	50.7%	51.9%	53.1%	2.6%
LatAm South	40.4%	43.5%	46.1%	46.2%	46.4%	45.9%	46.2%	46.6%	46.9%	47.2%	0.8%
W Europe	22.3%	19.6%	22.8%	27.9%	31.1%	30.4%	31.0%	31.6%	32.0%	32.3%	1.3%
C&E Europe	23.7%	17.5%	24.0%	20.0%	12.8%	14.7%	14.7%	14.6%	15.0%	15.4%	2.5%
Asia-Pacific	26.5%	19.8%	17.6%	16.5%	15.4%	15.3%	15.4%	15.7%	16.0%	16.2%	0.8%
GEHC (Global, Export, Holding Co)	37.8%	28.8%	29.6%	-5.2%	-6.0%	-6.1%	-5.8%	-5.4%	-5.1%	-4.7%	1.3%
Group EBITDA Margin (Adjusted)	34.6%	30.8%	35.5%	38.2%	39.3%	39.2%	39.4%	40.3%	41.1%	41.9%	2.6%

Source: Company Reports and CIRA Estimates

AB-InBev

Company description

Anheuser-Busch InBev is the world's largest brewer and was formed from the merger of Interbrew and AmBev in 2004 and the acquisition of Anheuser-Busch in November 2008. Just under half its profit comes from the US and a further 30% from Brazil. Europe and Asia (combined) contribute less than 10% of profit. Its main global brands are Budweiser, Bud Light, Brahma, Stella Artois and Beck's, but it has several strong local brands too. The company is 43% controlled by unlisted Stichting InBev, which in turn is owned by two sets of shareholders - the Brazilian former controlling shareholders of AmBev and the Belgian former controlling shareholders of Interbrew. Vigorous cost cutting has allowed the company to boost margins very significantly since the 2004 merger.

Investment strategy

We have a Buy rating on ABI. We expect ABI to deliver 11% EPS CAGR over 2011-15E, among the best in European large-cap consumer staples mainly thanks to: (i) pricing power in its two key markets (the US and Brazil), (ii) mix benefits in the US and (iii) deleverage. ABI is highly cash generative, and we believe that in the next few years, management will use this cash flow to enhance shareholder returns.

Valuation

Our €63 target price is set using a (rounded) fair value on PEs. ABI is currently trading at about 14.4x 12-months forward PE, which represents an 11% discount to a selected group of blue chip consumer peers. Over the next 12 months we expect the discount to narrow to around 4% (in line with the average of the past 5 years), because we believe the market has digested the newsflow on Brazil and investors will get more confident about the outlook for US profit.

In other words, we expect ABI's 12 month forward PE multiple to re-rate by around 7% over the next 12 months, to 15.4x, but by then applied to June-14 earnings. Given our \$5.16 estimate for June-14 EPS, this implies a fair value of \$79.4 or €63.5 (at 1.25 exchange rate), which we round to €63.

Risks

Compared with most industries brewing is relatively predictable, but nonetheless brewers' profits tend to be more volatile than tobacco or branded food companies. For ABI in particular we highlight the following risks:

US pricing: A bit less than half ABI's profit comes from the US. If its beer prices increase either faster or more slowly than we expect profit margins are likely to rise above or fall below our forecasts.

Brazil: About a third of ABI's profit comes from Brazil, where volume growth was strong in 2009 and 2010, but less so in 2011. If the economy slows sharply, this would probably affect profits there.

FX: Only about 50% of ABI's profits are generated in dollars (ABI's reporting currency) and less than 10% in euros. If the Brazilian real in particular is either stronger or weaker than expected, this will affect profit and cash flows, either for better or worse.

Input costs: All brewers depend on malting barley and glass and aluminium, and they are also exposed to the price of oil. If the price ABI pays is either higher or lower than we expect, profit is likely to be affected.

Excise tax risk: If beer taxes go up in any of its important markets, ABI is likely to suffer.

Regulations: It is possible that harsher anti-alcohol laws could impact ABI's businesses.

These risks could keep the shares below, or drive them above, our target price.

Notes

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Appendix A-1

Analyst Certification

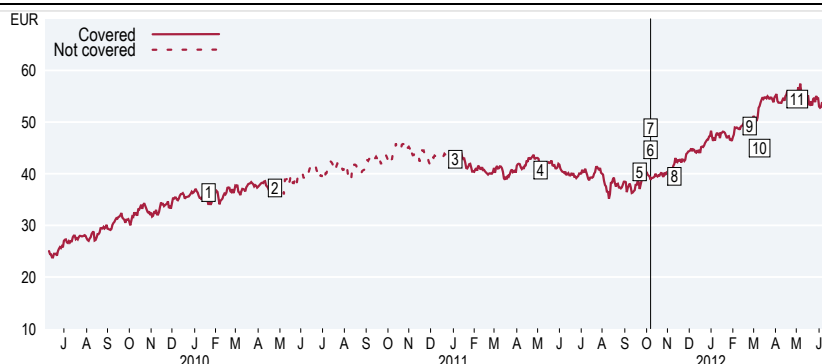
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IMPORTANT DISCLOSURES

AB-InBev (ABI.BR)

Ratings and Target Price History Fundamental Research

Analyst: Andrea Pistacchi
Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	21-Jan-10	1M	*42.00	33.99
2	26-Apr-10	Coverage terminated		
3	5-Jan-11	1M	*51.00	43.08
4	5-May-11	1M	*48.00	40.70

* Indicates change

	Date	Rating	Target Price	Closing Price
5	22-Sep-11	1M	*46.00	37.04
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	46.00	38.84
8	10-Nov-11	1	*48.00	41.94

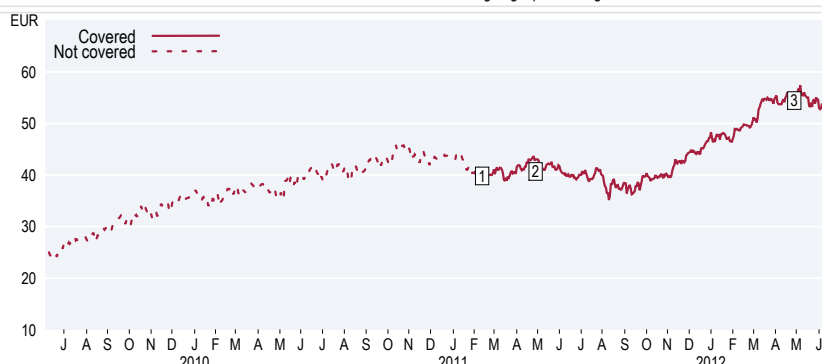
	Date	Rating	Target Price	Closing Price
9	24-Feb-12	1	*55.00	49.23
10	9-Mar-12	1	*62.00	53.11
11	2-May-12	1	*63.00	55.50

Rating/target price changes above reflect Eastern Standard Time

AB-InBev (ABI.BR)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Andrea Pistacchi
Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	41.26

* Indicates change

	Date	Rating	Target Price	Closing Price
2	28-Apr-11	*REM MP	-	43.01

	Date	Rating	Target Price	Closing Price
3	27-Apr-12	*ADD MP	-	55.10

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2012

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	10%	79%	10%
% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

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