



GNAM Investment Competition

EAESP – FGV

Top Investment Idea: AMBEV S.A.

Oct/22/2016

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AMBEV S.A. – Company Overview

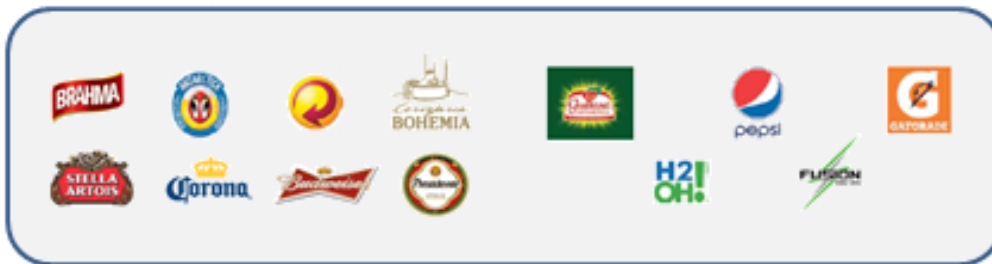
Created in 1999, AMBEV S.A. (American Beverage Company) is the biggest beverage company in Latin America, presented in 19 countries and the company has some brands (Brahma and Skol) in the top 10 world sales (beers).

The company manufactures, distributes and sell beers, soft drinks and others non-alcoholic beverages.

The company is member of the Anheuser-Busch Inbev group (ABI), the world's biggest beer group.



AMBEV brands



AMBEV: presented in 19 countries
source: company annual report

AMBEV has an exceptional market share performance ...

South America



market leader in all countries, except Chile (2nd)

C.A. & Caribbean:
45% beer market



Source: Company data and estimates.

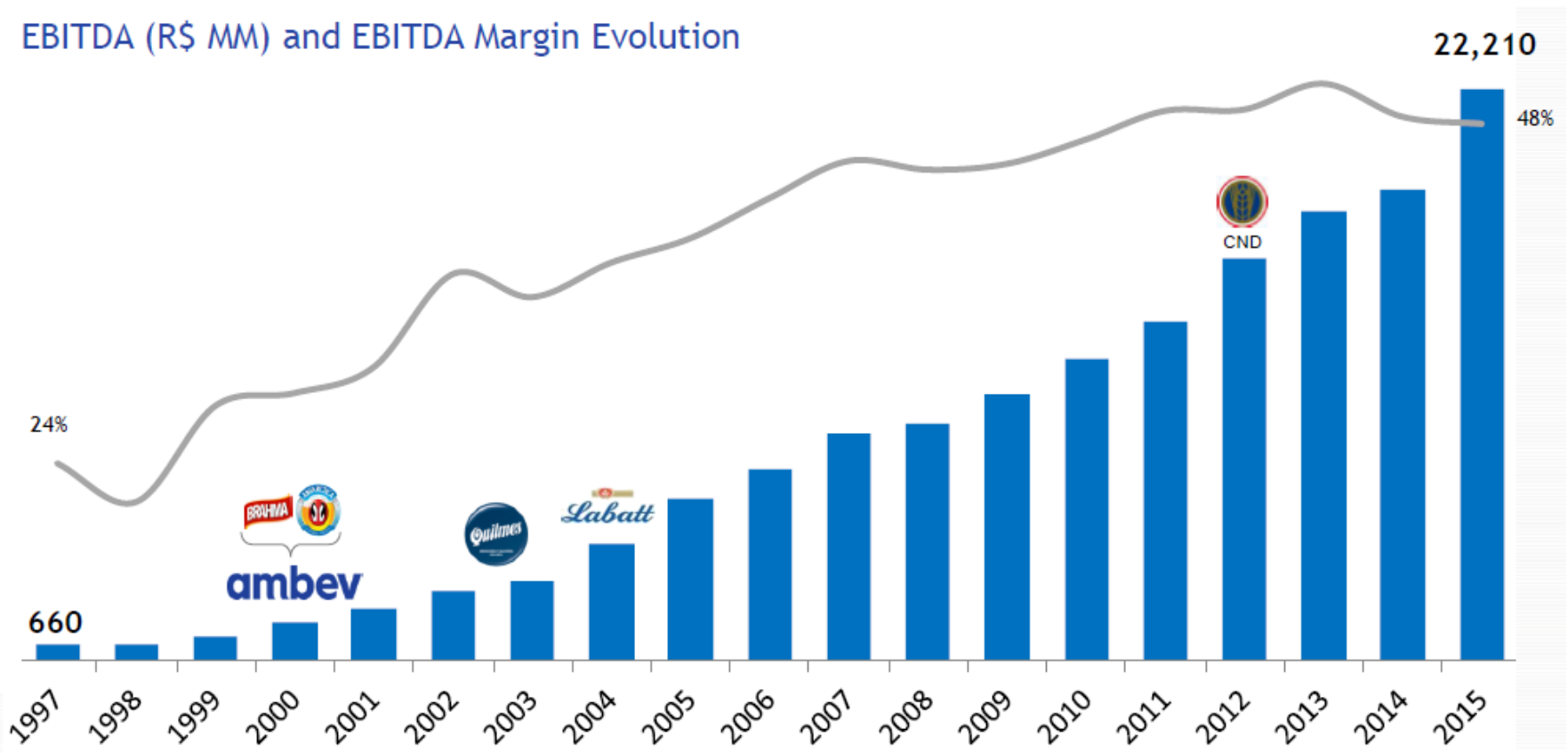


Canada:
42.2%



... creating value in a sustainable way through the years

EBITDA (R\$ MM) and EBITDA Margin Evolution





The company presented a strong performance in 2015 ...

AMBEV

2015

R\$ 22.2 bn EBITDA
47.5% EBITDA Margin

Central America
and Caribbean
1,174 MM
5%



Latin America
South
4,878 MM
22%



2015 RESULTS
EBITDA R\$
% consolidated EBITDA



Canada
2,057 MM
9%

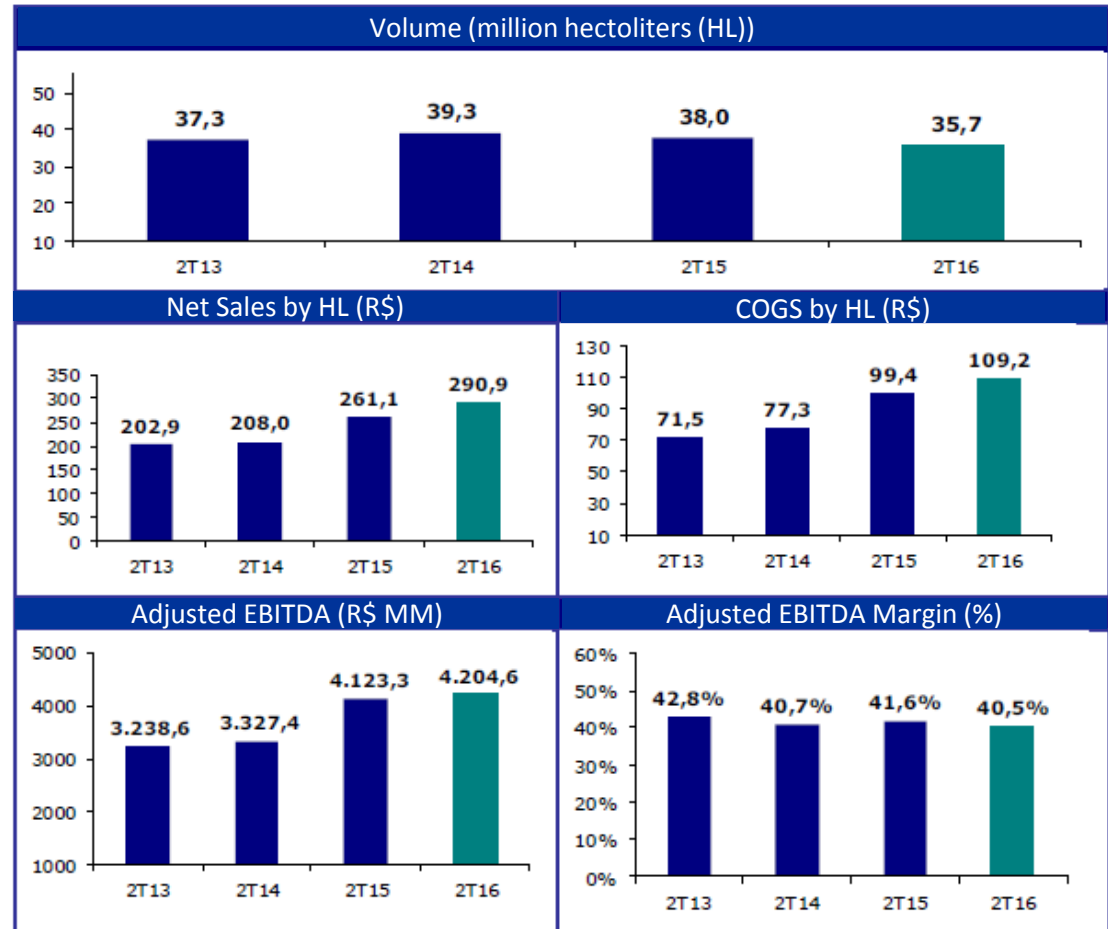


Brazil
14,101 MM
64%



... and kept the performance also in 2016

Despite the fact that 2016 is a challenging year in Brasil (AMBEV' largest market), the company shows in their report (2nd trimester), an increase in the consolidated sales and EBITDA.



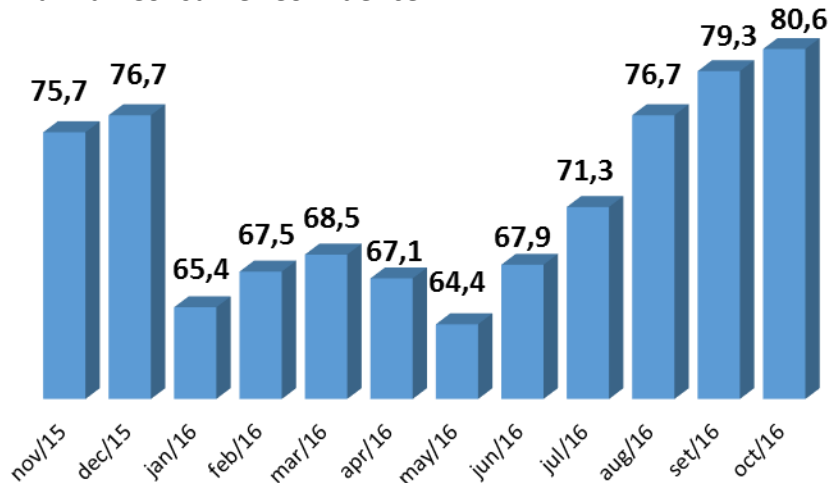


Macro overview

After a strong political volatility in main markets, Brazil and Argentina, consumer confidence has recently showed some sequential improvement

In the challenging first half of the year, Ambev, focused on commercial platforms to strengthen competitive position

Brazilian Consumer Confidence



Source: IBRE - FGV

Risks:

:: Rising unemployment continued to put pressure on disposable income and beer industry volumes.

:: In the last 2 years, the beer market in Brazil had tax increases and anyone can ignore that this should continue in 2017.

:: Federal government is taking actions to reduce the fiscal deficit and to control inflation, however, there's a long way to get success. Higher inflation should put pressure on income.

Investment case

- Consumer weakness in Brazil over the past 2 years accelerated mix changes
 - Affordability: Returnable bottles (30% discount to a similar brand in non-returnable format). Ecofriendly.
 - Premium: Increasing share of premium beers due to a more resilient higher income consumer. (Double digit growth, represents 9% of the total beer market).
 - Craft, health and wealthness tendence, being reletcted organically and through acquisitions.
- Impacted by consumer weakness, but reinforced strong competitive positioning
 - 67% share in Brazilian beer
 - Focus on cost effiience
- Attractive multiples relative to history and peers
 - Ambev currently trades at 12.3x 2017E EV/EBITDA, and 20.3x P/E, based on Bloomberg consensus, versus 5 years average of 13.2x and 20.4
 - Ambev also trades at a discount relative to global peers. Defensive profile, high dividend and returns should deserve a premium over the market
 - 3600 bps Gap btween Ambev and Brazilian Benchmark index, Ibovespa

Pro forma results

- Volume growth will stabilize in 2017, and growth 1% YoY after 2018
- 20 bps growth in gross margin YoY, due to efficiency gains
- 20 bps reductions in SG&A YoY, due to efficiency gains
- Price per liter will increase 3% YoY, based on premium segment share's gain

| | FY14 | FY15 | FY 16 E | FY 17 E | FY 18 E | FY 19 E | FY 20 E | FY 21 E | FY 22 E | FY 23 E |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total Volume | 171.766 | 169.078 | 157.584 | 157.584 | 159.160 | 160.752 | 162.359 | 163.983 | 165.623 | 167.279 |
| Net sales | 38.080 | 46.720 | 49.575 | 51.062 | 53.120 | 55.261 | 57.488 | 59.804 | 62.214 | 64.722 |
| Gross profit | 25.265 | 30.659 | 32.497 | 33.574 | 35.034 | 36.556 | 38.144 | 39.801 | 41.530 | 43.333 |
| Gross margin | 66% | 66% | 66% | 66% | 66% | 66% | 66% | 67% | 67% | 67% |
| SG&A | (10.979) | (13.459) | (15.040) | (15.389) | (15.903) | (16.433) | (16.980) | (17.545) | (18.127) | (18.729) |
| Other operating income | 1.629 | 1.936 | 1.719 | 1.761 | 1.761 | 1.761 | 1.761 | 1.761 | 1.761 | 1.761 |
| EBIT | 15.916 | 19.136 | 19.176 | 19.947 | 20.892 | 21.885 | 22.925 | 24.018 | 25.163 | 26.365 |
| Depreciation | 2.360 | 3.074 | 3.743 | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 |
| EBITDA | 18.276 | 22.210 | 22.919 | 23.006 | 23.951 | 24.944 | 25.984 | 27.077 | 28.222 | 29.424 |
| | | | | | | | | | | |
| EBIT Margin | 42% | 41% | 39% | 39% | 39% | 40% | 40% | 40% | 40% | 41% |
| EBITDA Margin | 48% | 48% | 46% | 45% | 45% | 45% | 45% | 45% | 45% | 45% |
| | | | | | | | | | | |
| Volume growth | | -2% | -7% | 0% | 1% | 1% | 1% | 1% | 1% | 1% |

Valuation

| | FY 17 E | FY 18 E | FY 19 E | FY 20 E | FY 21 E | FY 22 E | FY 23 E |
|-------------------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBIT | 19.947 | 20.892 | 21.885 | 22.925 | 24.018 | 25.163 | 26.365 |
| Taxes | 3.112 | 3.259 | 3.414 | 3.576 | 3.747 | 3.925 | 4.113 |
| NOPAT | 16.835 | 17.633 | 18.471 | 19.349 | 20.271 | 21.238 | 22.252 |
| Depreciation | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 |
| Working capital | 511 | 531 | 553 | 575 | 598 | 622 | 647 |
| CAPEX | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 | 3.059 |
| FCFF | 16.325 | 17.102 | 17.918 | 18.774 | 19.673 | 20.616 | 21.605 |
| WACC | 7,1% | | | | | | |
| g | 2,5% | | | | | | |
| Residual | | | | | | | 478.928 |
| PV | 15.239 | 14.903 | 14.576 | 14.257 | 13.945 | 13.642 | 13.346 |
| Sum of VPs | 395.753 | | | | | | |
| Debt | 3.633 | | | | | | |
| Cash & equivalents | 5.816 | | | | | | |
| Net debt | - 2.183 | | | | | | |
| Enterprise Value | 393.570 | | | | | | |
| Number of shares | 15.718 | | | | | | |
| Price / share | 25,04 | | | | | | |
| Current price | 19,75 | | | | | | |
| Upside | 27% | | | | | | |

Risk free rate: 10yr US Treasury

ABEV3 beta: 0,39

Market Risk Premium: 8%

CDS Brazil: 2,57%

Ke: 7,12%

Kd: 9,1%

D/E: 0,01

WACC: 7,11%

27% upside

Strong Buy



AmBev (ABEV3) vs. Ibovespa

Common size – 2016

