



Global Network for  
Advanced Management

## **Second GNAM Investment Competition**

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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, manufacturing, distributing and selling beers, soft drinks and others non-alcoholic beverages.

The company is presented in 19 countries and some of its brands (Brahma and Skol) are in the top 10 world sales (beers).

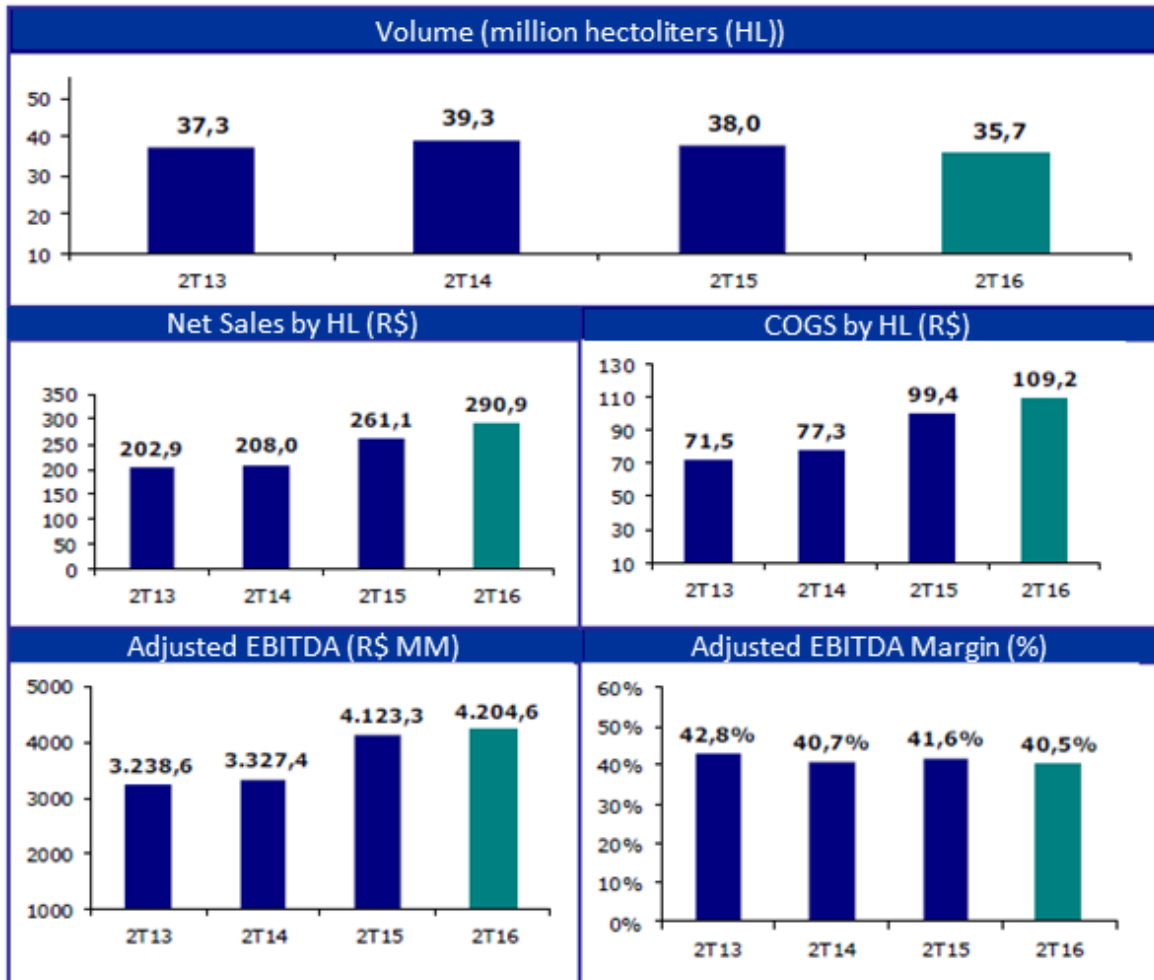


Ambev is member of the Anheuser-Busch Inbev group (ABI), the world's biggest beer group. Ambev and Anheuser-Busch Inbev group has a relevant historic of acquisitions and the Exhibit 1 present this in more details.

Ambev has an exceptional market share performance in South America, Central America & Caribbean and in Canada. In South America the company is the leader in Brazil, Bolivia, Paraguai, Argentina, Uruguai and is the second in Chile. In Canada and CA & Caribbean, Ambev has 42% and 45% of market share, respectively.

The company always had strong values, and the cost control is one of the most important. This value, acting together with others, as the proactive spirit to anticipate market trends, was the responsible for creating value in a sustainable way through the years. Exhibition 2 presents the evolution of EBITDA and EBITDA margin from 1997 (margin 24%) to 2015 (margin 48%).

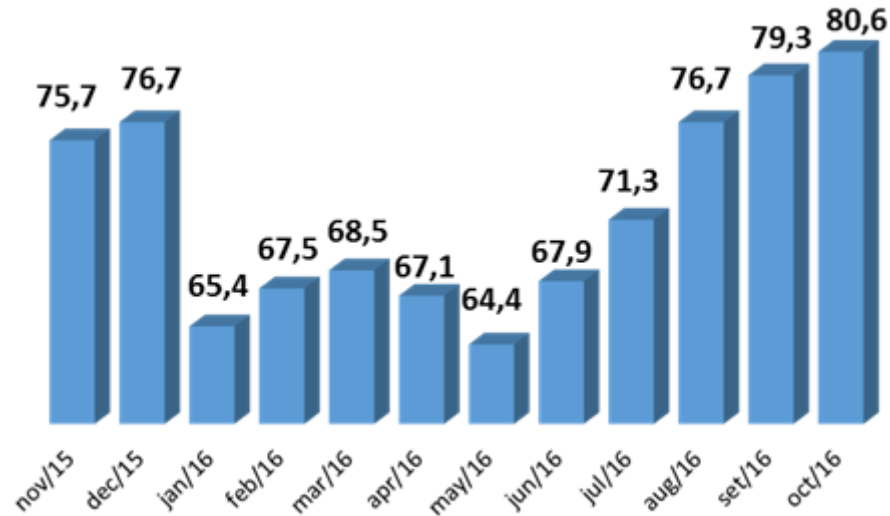
AMBEV presented a strong performance in 2016, despite the fact that this is a challenging year for the Brazilian economy, as we present below.



## Macro Overview

South America represents the most important market for AMBEV and after a strong political volatility in the region, including the impeachment of former Brazil' president, Mrs. Dilma Rousseff, the Consumer Confidence in Brazil has recently showed some sequential improvement.

### Brazilian Consumer Confidence



Source: IBRE - FGV

The current Brazilian federal government has a challenging scenario, with some issues as higher fiscal debits and inflation control. The improvement in the Consumer Confidence is based on the success that the government had approving some law changes, that will help the country deal with these issues, however, there are risks that can't be ignored by AMBEV or any other industry, like the unemployment, that puts pressure on disposable income and beer industry volumes, taxes' increases that the government implemented during the last 2 years, to help in the fiscal deficit control and inflation, which isn't under control yet.

### Company Financials

The results of AMBEV in 2nd Quarter shows an increase in the Net Sales (3.2%), even considering that the volume decreases 6.7% due to Brazil and Argentina results, countries that are facing political and economic instabilities. AMBEV got these results improving its portfolio, introducing and expanding premium labels.

The company also got success in the cash generation, represented by EBITDA, which increased 1.8% in the comparison of the 2Q2016 with 2Q2015. More details can be checked in the Exhibit 3.

In our opinion, the company proved, again, that is very prepared to get excellent results even in instable scenarios and this reinforces our strong buy recommendation.

## Investment Case & Valuation

The investment case of AMBEV is based on 3 major points:

1. 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 refletcted organically and through acquisitions.
2. Impacted by consumer weakness, but reinforced strong competitive positioning
  - 67% share in Brazilian beer
  - Focus on cost efficiencie
3. 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.

Considering this scenario, our valuation indicates that AMBEV shares had an upside of 27%, so, we are recommending strong buy for AMBEV.

Some of the assumptions are in the figure below, but, it's also important to mention that, due the recession in Brazil (the most important market), we are considering a volume growth of 0% in 2017 and 1% in 2018 and beyond. We are also considering an increase of

0.2% in the gross margin, due to the future increase of efficiency of the company. We think that this assumption makes sense because the company already presented similar performance in previous years.

	FY 17 E	FY 18 E	FY 19 E	FY 20 E	FY 21 E	FY 22 E	FY 23 E
<b>EBIT</b>	<b>19.947</b>	<b>20.892</b>	<b>21.885</b>	<b>22.925</b>	<b>24.018</b>	<b>25.163</b>	<b>26.365</b>
Taxes	3.112	3.259	3.414	3.576	3.747	3.925	4.113
<b>NOPAT</b>	<b>16.835</b>	<b>17.633</b>	<b>18.471</b>	<b>19.349</b>	<b>20.271</b>	<b>21.238</b>	<b>22.252</b>
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
<b>FCFF</b>	<b>16.325</b>	<b>17.102</b>	<b>17.918</b>	<b>18.774</b>	<b>19.673</b>	<b>20.616</b>	<b>21.605</b>
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						
<b>Enterprise Value</b>	<b>393.570</b>						
Number of shares	15.718						
Price / share	25,04						
Current price	19,75						
Upside	<b>27%</b>						

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%

## Performance Stock Pics – AMBEV included

**Embraer - EMBR3:BZ**



Embraer is a Brazilian aerospace conglomerate, producing commercial, executive and military aircraft. It competes with Bombardier for the rank of third largest airplane maker, after Boeing and Airbus. It has booked a 200m USD loss in 2Q16 due to allegations of non-compliance with the U.S. FCPA, and it had a -30% impact in its stock price. Considering the existing regulatory issues are settled, and company financials are good, we expect a strong performance in the following months.

**BRF - BRSF3:BZ**



BRF is a Brazilian food conglomerate that produces proteins, processed foods, margarines, pastas, frozen meals and vegetables. BRF is a market leader in Brazil and also has plants in Argentina, UK, Thailand and UAE, and its main competitors are JBS, Tyson foods and Bunge. Following Mauricio Macri election in Argentina and Michel Temer government in Brazil, we expect a strong consumer demand pick-up in both countries, BRF largest markets. We also like that BRF made a good job during the past years discontinuing low profit business lines and investing in the more profitable ones.

**Randon - RAP4:BZ**



Randon is the largest manufacturer of trailers and semi-trailers in Latin America and among the largest in the world, manufacturing different types of road equipment including semi-trailers, trailers and truck bodies, rail freight cars and stationary silos. Improvement in the macro scenario in Brazil and Argentina should have a dual positive impact in Randon operations, with increasing demand and BRL appreciation, considering a large share of raw materials used are commodities and have their price quoted in USD. We also like company debt to equity ratio is low compared to the industry, important considering Brazil high interest rates.

#### **VIVO - VIVT4:BZ**

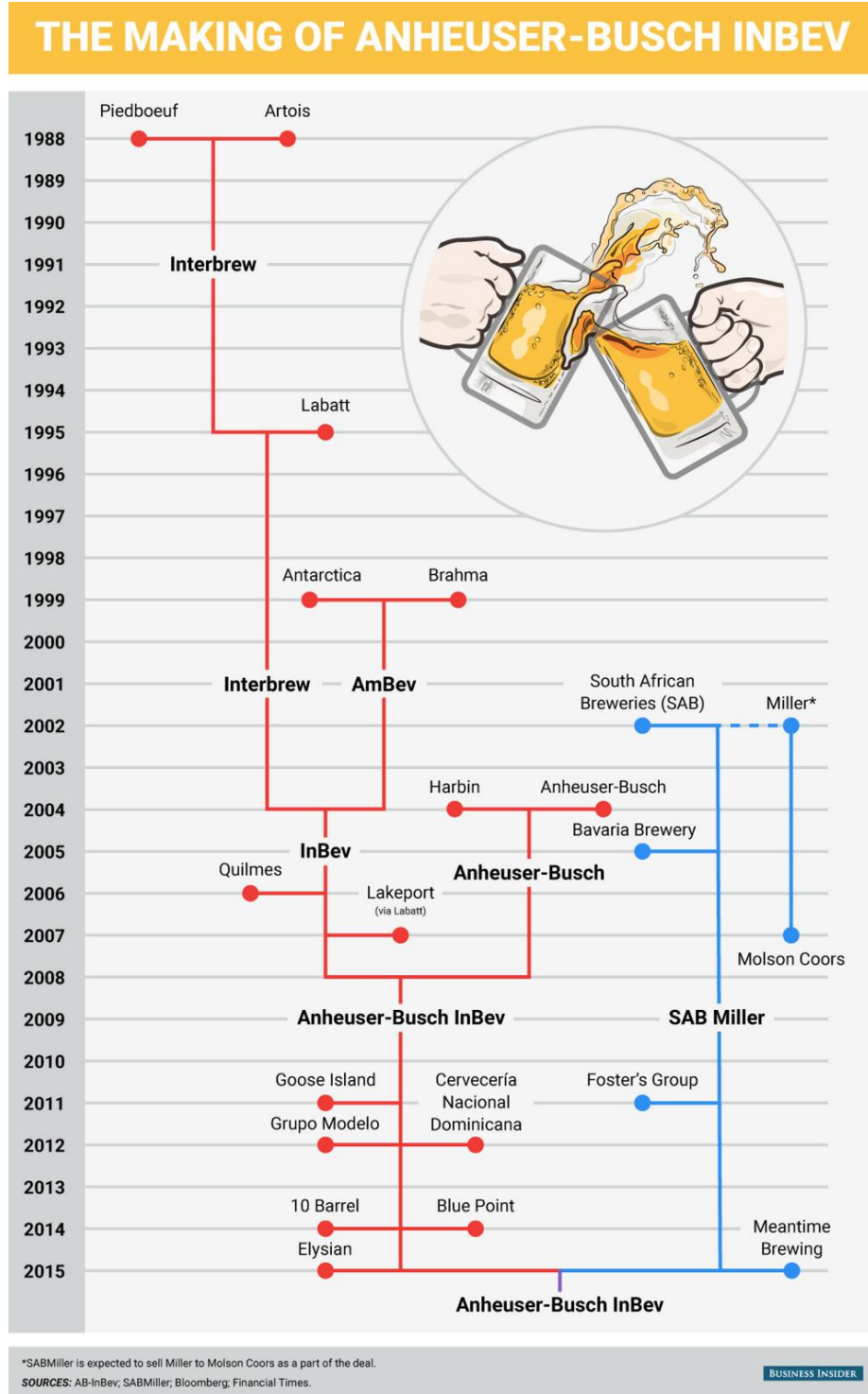


VIVO, legally know as Telefonica Brasil, is Brazil`s largest telecom, providing mobile, landline, satellite tv, cable tv and broadband services. VIVO has just announced they finished a two-year integration plan with GVT, acquired in 2014. We expect that synergies from the integration will have long lasting positive effects in the company`s financials. It is also positive the investment in broadband and 4G mobile network, as only 19% of Brazilians uses 4G connection in their mobiles, giving a lot of room for expansion. Financial are also better than competition, and the fact that OI, one of its main competitors, filed for chapter 11 in 2Q16 should leave Vivo with more opportunities as Brazil`s macro scenario improves.



# Exhibitions

Exhibit 1 – Anheuser-Busch Inbev group: historic of acquisitions



**Exhibit 2 – AMBEV: creating value in a sustainable way through the years**

EBITDA (R\$ MM) and EBITDA Margin Evolution

