Anheuser-Busch InBev BUDFF (ADR: BUD) | Disclosure: None	PRICE 10/6/23	$52.78	SHARES OUT	2054m	MARKET CAP	$108bn

DESCRIPTION: World's largest beer brewer based in Belgium. Brands include Bud Light, Corona, Stella Artois, Michelob Ultra, Jupiler, Leffe, Modelo (ex. USA), Aguila, Becks, Brahma

PREVIOUS ANALYSIS:
Deep Dive: March 2022
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Figures in $ millions	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	1H2022	1H2023
Volume in million hectoliters				500	613	560	561	531	582	595	289	288
Capital per hectoliter (avg)				$130	$103	$113	$113	$116	$107	$107	$106	$109
Revenue per hectoliter				$91	$92	$98	$93	$88	$93	$97	$97	$102
Revenue / capital employed	$0.73	$0.78	$0.70	$0.70	$0.89	$0.86	$0.83	$0.76	$0.88	$0.91	$0.83	$0.86
Operating margin	33%	32%	31%	29%	31%	32%	31%	26%	25%	25%	25%	24%
Pre-tax return on capital	24%	25%	22%	20%	28%	28%	25%	20%	22%	23%	21%	20%
Shares outstanding	1,650	1,665	1,668	1,755	2,010	2,011	2,026	2,037	2,007	2,013	2,047	2,054
Cash	$9,962	$8,658	$6,978	$14,238	$11,776	$7,161	$7,330	$15,647	$12,127	$9,973	$7,027	$6,848
Net debt	$39,164	$42,464	$42,488	$108,505	$104,723	$102,753	$95,711	$82,918	$76,703	$70,019	$76,405	$73,923
ABI shareholders' equity	$50,365	$49,972	$42,137	$71,339	$72,585	$64,486	$75,722	$68,024	$68,668	$73,398	$71,550	$77,460
Net debt / total assets	28%	30%	32%	42%	43%	44%	40%	37%	35%	33%	36%	34%
Net debt / equity	71%	78%	93%	133%	131%	143%	113%	106%	97%	83%	92%	83%
Net revenue	$43,195	$47,063	$43,604	$45,517	$56,444	$54,619	$52,329	$46,881	$54,304	$57,786	$28,027	$29,333
Gross margin	59.3%	60.1%	60.7%	60.9%	62.1%	62.7%	61.1%	58.1%	57.5%	54.5%	54.4%	53.9%
EBIT	$14,124	$15,269	$13,686	$13,168	$17,591	$17,402	$16,169	$9,620	$13,824	$14,517	$7,000	$6,965
Net income	$14,394	$9,216	$8,273	$1,241	$7,996	$4,368	$9,171	$1,405	$4,670	$5,969	$1,692	$1,977
EPS	$8.72	$5.54	$4.96	$0.71	$3.98	$2.17	$4.53	$0.69	$2.28	$2.91	$0.83	$0.96
Growth capex	($627)	($769)	($1,184)	($1,291)	$152	($389)	($197)	$1,142	($446)	$240	$538	$532
Dividends	($6,253)	($7,400)	($7,966)	($8,450)	($9,275)	($7,761)	($5,015)	($1,800)	($2,364)	($2,442)	($1,276)	($1,923)
Acquisitions	($17,496)	($6,857)	($918)	($49,616)	$11,141	($185)	($252)	$10,328	($379)	$218	$22	$2
Share issuance (repurchase)	$73	$83	$1,005	$0	$0	$0	$5,575	$0	$0	$0	$0	$0
Change in debt	$4,458	$3,223	$457	$62,675	($9,981)	($4,707)	($8,449)	($8,755)	($9,728)	($8,971)	($5,426)	$708

Notes:
ABI equity excludes non-controlling.
Negative numbers are cash out; positive are cash in.

FIRST HALF 2023 UPDATE

Input cost inflation and the ongoing Bud Light saga in the US weighed on ABI's first half results. Still, there were bright spots as the brewer of one out of every four beers sold in the world continued its industry leadership.

Globally for the first half of 2023, revenue grew 7.2% to $29.3 billion and revenue per hectoliter increased 9%. However, increased pricing caused volume to decline by 1.4%. The worldwide decline was primarily a result of weakness in the US, where a 14% decrease in volume and a 10.5% decrease in revenue outweighed growth in many other markets.

Operating margin and operating earnings were flat at 24% and $7 billion, respectively. Net income increased from $1.7 billion in H1-2022 to $2.0 billion in H1-2023. The company expects the second half of the year to show improvement as consumers get used to price increases, inflation moderates, and volumes return.

The company continues to deal with the backlash against its brands in the US as a result of its sponsorship with transgender icon, Dylan Mulvaney, which angered the primarily right-wing, conservative population of Bud Light drinkers. ABI put it best and simply: “One, they [consumers] want to enjoy their beer without a debate.” Financial results suffered due to the decline in volume and an increase in marketing spending aimed at rescuing the brand.

ABI’s second largest market is Mexico, where it enjoys a 60% share, including around a 75% share in and around Mexico City. Volumes in Mexico have risen at a 4% CAGR over the past five years. The longer term looks promising, too, with the world’s 10th largest population, an average age of just 29 years, and rising income levels. The company has had success with TaDa, the first direct-to-consumer digital platform that claims to be able to deliver cold beer in 30 minutes or less. ABI’s Middle Americas region, which includes Mexico, has a company-leading 37% operating margin.

Financial results in Brazil included double-digit top and bottom-line growth and 400 bps margin expansion. A similar DTC offering in Brazil, Ze Delivery, is partly behind the improving profitability. The company is using the system to incorporate RGBs or returnable glass bottles. Marketed as a sustainability effort (which it is), RGBs have the potential to significantly improve margins.

The company continues to focus on premiumization, which it says is at least 30% more profitable. The company’s global brands delivered over 18% growth outside of their home markets. Corona was up 24% outside of Mexico; Stella Artois was up 15% outside of Belgium, and Budweiser increased 17% outside of the US.

ABI says it has three capital allocation priorities: deleveraging, selective M&A, and return of capital to shareholders. Deleveraging has been the priority since the $100 billion SAB acquisition in 2016, which increased debt to 143% of equity at the end of 2018. Net debt has come down from $108 billion in 2016 to $77.5 billion or 83% of equity at the end of Q2-2023.

The company is clearly attuned to investor’s concerns about its debt and spends considerable time talking about it. It has no maturities in 2023, and no medium-term refinancing needs. The bond portfolio has an average pre-tax coupon of 4% and 96% of the debt carries a fixed rate. Importantly, there are no covenants, which means ABI has significant flexibility. Its goal is to get to 2.0x debt/EBITDA, a point which it says maximizes shareholder value. As of June 30, 2023, the ratio stood at 3.7x.

ABI’s strategy is simple: increase prices by local CPI, drive volume growth and increase economies of scale, encourage premiumization, and take out costs. It’s a strategy that’s replicable across countries / markets.

Shares are down 12% YTD putting its market cap at $108 billion. Add net debt and you’re paying an enterprise value of $182 billion. Pre-tax earnings power is in the neighborhood of $15 billion, which would put returns at 8%. Equity holders will enjoy the cheap debt financing while it lasts. And ABI has long-term tail winds at its back including population growth, improved affordability from developing countries, and premiumization. In the shorter term an abatement of commodity pressures could return ABI to 30% EBIT margins, a result that could add $3 billion in operating profit.