

AmBev

# Has beer consumption in Brazil peaked? We don't think so – Buy Ambev

Maintain Rating: BUY | PO: 16.00 BRL | Price: 13.08 BRL

## Record beer volumes in 2023 but there are growth drivers

The Brazilian beer market will likely reach record levels in 2023 at ~15.7bn liters, according to Euromonitor. We estimate Ambev should also post near record volumes at 9.3bn liters, only 1% down YoY, but 20% higher than the lows seen in 2017. At this point, many question if this is the peak and if beer sales should start declining going forward. We have reasons to believe there is still room for the beer market in Brazil to continue to grow, namely: 1) greater brand, product and channel innovation combined with accelerated premiumization; and 2) a more rational competitive environment, which we believe has stimulated a stronger market volume growth. As such, we assume a 2.5% volume CAGR 23-30E. We maintain our Buy on Ambev and R\$16/share PO.

## Food for thought: lessons from the Mexican beer market

We believe the Mexican beer market has interesting analogies to what may be happening in Brazil, considering the similarities between both countries, such as economic growth, consumer profile, retail footprint, and competitive dynamics. Between 2017 and 2023, the beer market in Brazil outperformed the annual economic growth of 1.8% by 150bps, while in Mexico's outperformance was of 320bps, growing 5% per year. Beer per capita consumption in Mexico reached 79 liters/year in 2023, versus high 50s in 2016 and already 6% above Brazil's, and 40% above the LatAm average of 57 liters.

## Mexico: a better mkt stimulated by greater competition

We believe the turning point in Mexico was the change in the competitive dynamic, triggered by 1) the acquisition of Modelo by ABI in 2013; and 2) the agreement between ABI and Oxxo in 2019, ending the exclusivity Heineken had with the retailer until then. According to Euromonitor, ABI has a market share of 58% vs. Heineken's 40% (2023). In our view, the greater competition between ABI and Heineken has resulted in a better market, with more innovation and focus on consumer, and digitalization of beer sales.

## Brazil is also going through a big competitive change...

We believe Brazil has also witnessed relevant competitive changes since 2021: 1) Petropolis, the 3<sup>rd</sup> largest player, filed for Chapter 11 in 2023; and 2) Heineken redesigned its distribution in 2021, with increased focus on its own distribution network. We estimate Ambev has a market share of 58% and Heineken has 30%, while Petropolis lost 350-400bps since 2021, most of it captured by Ambev.

## ...and we are already seeing positive changes in the market

As Ambev and Heineken consolidate their top-2 market positions, we have not seen signs of price war or irrational competition. Actually, Ambev has been focusing on consumer more than we've seen in the last decade. New brands are being launched (i.e. Spaten), while BEES (ecommerce platform) and Ze Delivery (direct-to-consumer channel) led a big transformation in the way they sell beer.

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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### Stock Data

Price (Common / ADR)	13.08 BRL / 2.62 USD
Price Objective	16.00 BRL / 3.20 USD
Date Established	22-Jan-2024 / 22-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	12.28 BRL - 15.78 BRL
Market Value (mn)	205,646 BRL
Free Float	28.0%
Average Daily Value	47.83 USD
Shares Outstanding (mn)	15,722.1 / 15,722.1
BofA Ticker / Exchange	AVBPF / SAO
BofA Ticker / Exchange	ABEV / NYS
Bloomberg / Reuters	ABEV3 BZ / ABEV3.SA
ROE (2023E)	17.8%
Net Dbt to Eqty (Dec-2022A)	-13.9%

See:

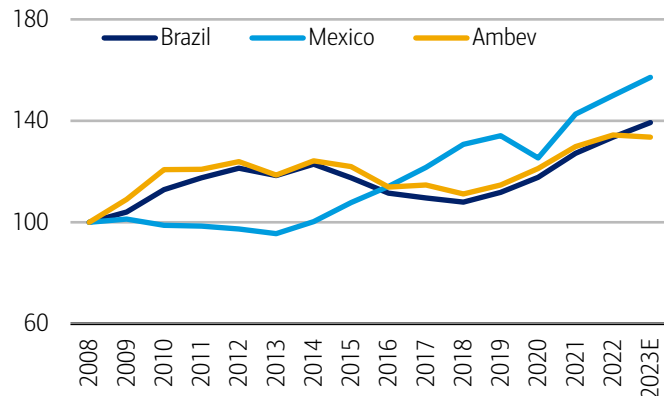
[AmBev: Reiterate Buy: back to fundamentals, and they are solid: adjusting ests/ and PO 22 January 2024](#)

[LatAm Beverages: The "Spaten" phenomenon – survey takes 06 November 2023](#)

# Food for thought: lessons from Mexico

## Exhibit 1: Beer market volume (2008 indexed as 100)

Beer volumes in Mexico have growing ahead of Brazil in recent years

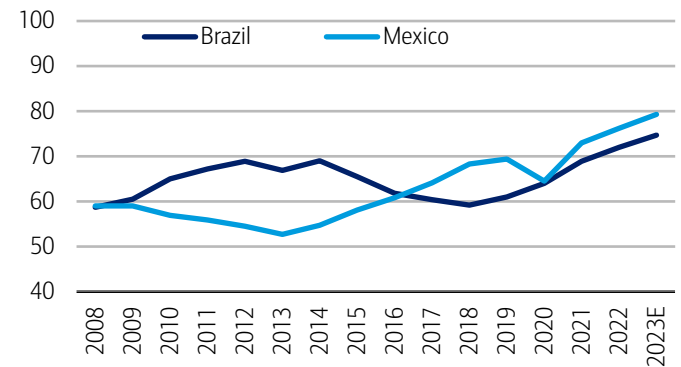


Source: Euromonitor, BofA Global Research estimates

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## Exhibit 2: Beer per capita consumption (liter/year)

Per capita consumption in Mexico has been sustainably higher than in Brazil since 2016

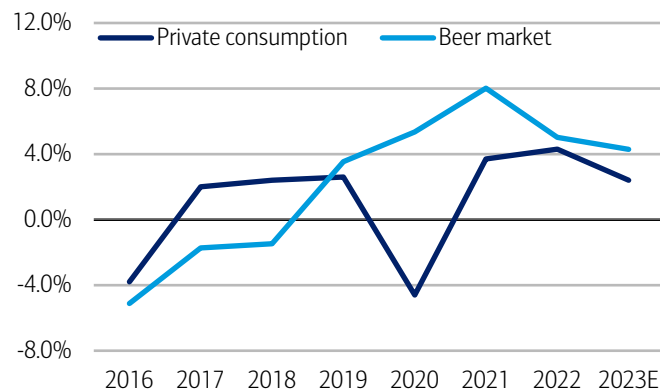


Source: Euromonitor

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## Exhibit 3: Beer market vs. private consumption growth - Brazil

Beer market has been growing above economy in Brazil since 2019

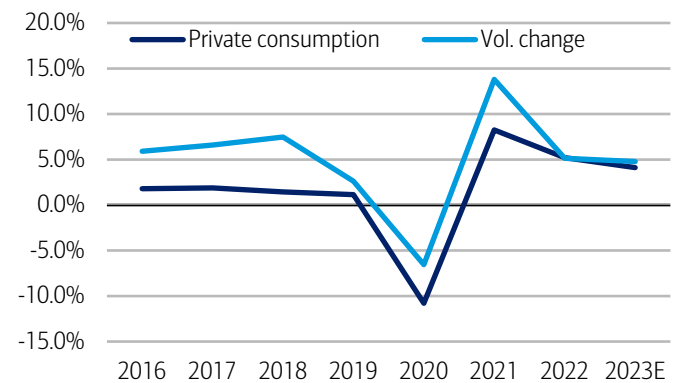


Source: Euromonitor, BofA Global Research

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## Exhibit 4: Beer market vs. private consumption growth - Mexico

Beer market has also been outperforming since 2016

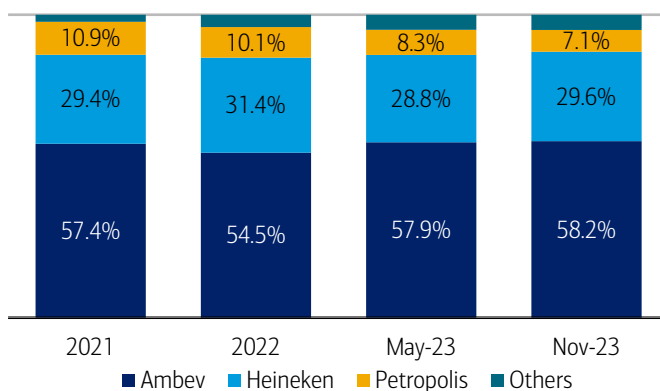


Source: Euromonitor, BofA Global Research

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## Exhibit 5: Beer market share breakdown in Brazil

Ambev has been gaining share, mainly versus Petropolis

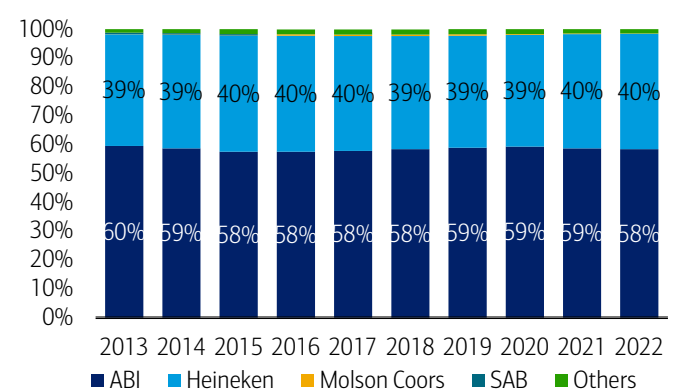


Source: BofA Global Research survey

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## Exhibit 6: Beer market share breakdown in Mexico

Competitive scenario in Mexico is similar to Brazil's



Source: Euromonitor

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## Price objective basis & risk

### AmBev (ABEV)

Our R\$16/share (US\$3.2/ADR) price objective for AmBev is based on a 50/50% blend of a discounted cash flow (DCF) model and a target multiple of 17x 2024E P/E, which implies a discount to peers in EM and ABI in line with historical average. We base our weighted-average cost of capital (WACC) of 12.6% on the average WACC in each one of the countries in which AmBev operates (12.1% for Brazil, 24% for Argentina and 7.7% for Canada).

Upside risks to our price objective are 1) better-than-expected beer volumes, prices and margins in Brazil, 2) improving competition, 3) further appreciation of the BRL, 3) ARS stabilization, 5) faster than expected growth of the premium and near beer categories in Brazil.

Downside risks to our price objective are 1) worse mix of packages and channel in Brazil for a longer period of time, 2) higher raw material costs, 3) higher taxes and stricter sector regulation, 4) deterioration of political and economic environment in Argentina, 5) FX rate volatility, 6) competition, and 7) lower beer prices.

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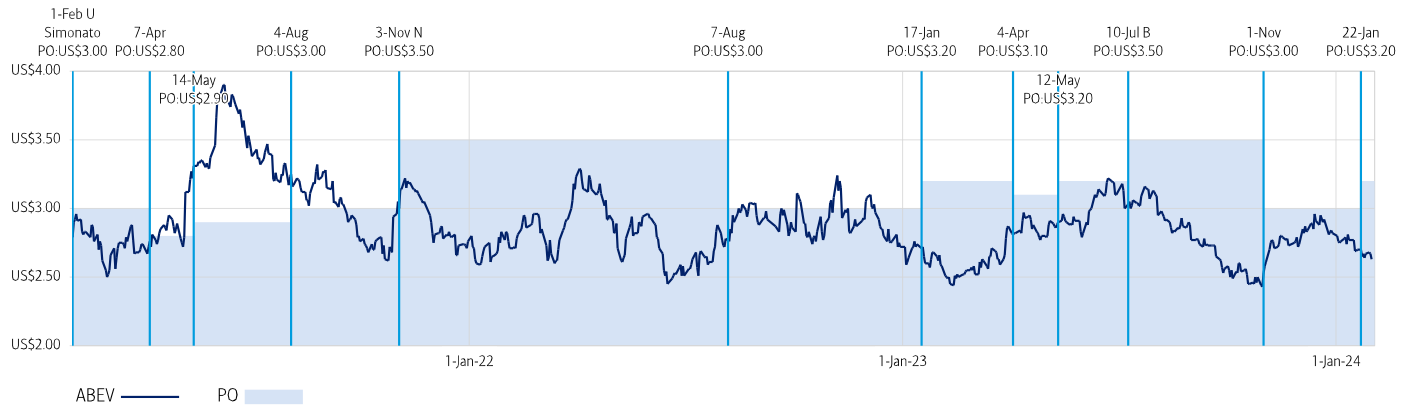
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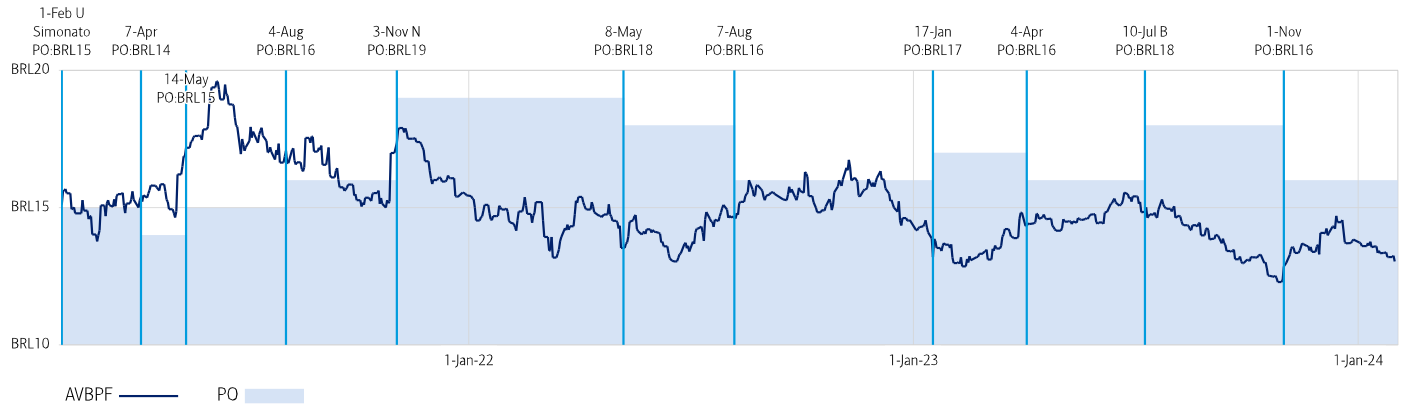
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	22	61.11%	Buy	15	68.18%
Hold	6	16.67%	Hold	4	66.67%
Sell	8	22.22%	Sell	2	25.00%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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