

## AmBev

# Don't be too short-sighted focusing solely on cost; key growth drivers remain – Buy

Reiterate Rating: BUY | PO: 16.00 BRL | Price: 12.48 BRL

## Setup for a strong 2024 is in place; Buy post Q4 selloff

Ambev shares are down 7% since Q4 results last week vs. the Ibovespa -1.5%. Investors we spoke with think cost guidance was disappointing, top line growth in Brazil should be muted in 2024, and valuation is unattractive. We share the view on cost but believe Ambev is set to have another good year in 2024 (16% growth of EBITDA ex-LatAm South, following +20% in 2023). It is also trading at attractive FCF yield of 7.7% in 2024. Finally, Argentina took a toll on results last year, but we think it is less relevant now (5%-7% of revenues), while margin has been above expectations and cash flow generation has been improving. We reiterate our Buy rating, fine tuning our estimates and keeping our PO at R\$16.0/US\$3.2.

## Q1 is set to be strong, easy vol./cost comp, higher prices

Management sounded confident in the earnings call about beer volume performance in Brazil in Q1 given a strong Carnival and easy comps for margin (we expect cash cost to drop 9%YoY). Also, our channel checks show beer prices in Brazil are up ~1.0%MoM in February. They are also bullish 2024, given favorable macro, while Ambev's portfolio is robust (see [The "Spaten" phenomenon](#) report) and premium is growing. We estimate beer volume growth of 2% in 2024 and we are constructive on the mid-term outlook.

## Higher costs offset by better mix; competition is rational

We now estimate cash cost per hectoliter for Brazil Beer to decline 3% in 2024, vs. guidance -0.5% to -3%. Although this smaller than the 8% previously expected, a more premium mix and reversal of present value adjustment explain such difference. We believe the Street is underestimating the mix effect. Ambev's rev/hl outperformed Brazil inflation by 400-500bps in 2022-23, given better product mix and revenue management. We estimate rev/hl of 5% in 2024 (100bps above inflation), vs. consensus at only 3%.

## Best cash conversion in 5yrs, ABV is trading at 7.7% yield

EBITDA conversion to cash was the highest in 5 years in 2023 at 58%, given lower financial costs and working capital release. We see the stock trading at 7.7% FCF yield in 2024 (6.5% dividend yield) and 13.9x P/E, at the bottom of the recent range of 14x-16x.

Estimates(Dec) (BRL)	2022A	2023A	2024E	2025E	2026E
EPS	0.89	0.92	0.90	1.01	1.13
EPS Change (YoY)	9.9%	3.4%	-2.2%	12.2%	11.9%
DPS	0.78	0.76	0.82	0.98	1.16
ADR EPS (US\$)	0.18	0.19	0.18	0.21	0.22
ADR DPS (US\$)	0.15	0.15	0.17	0.20	0.23
<b>Valuation (Dec)</b>					
P/E	14.0x	13.5x	13.8x	12.3x	11.0x
Dividend Yield	6.2%	6.1%	6.6%	7.9%	9.3%
EV / EBITDA*	7.6x	7.1x	6.5x	6.1x	5.4x
Free Cash Flow Yield*	8.7%	9.2%	7.7%	7.9%	9.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

04 March 2024

### Equity

#### Key Changes

(BRL)	Previous	Current
2024E Rev (m)	79,167.6	78,531.6
2025E Rev (m)	81,443.7	81,994.3
2026E Rev (m)	89,500.7	90,084.0
2025E EPS	0.95	1.01
2026E EPS	1.10	1.13
2024E DPS	0.93	0.82

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### Stock Data

Price (Common / ADR)	12.48 BRL / 2.50 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)	196,212 BRL
Free Float	28.0%
Average Daily Value	60.09 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 (2024E)	17.2%
Net Dbt to Eqty (Dec-2023A)	-15.5%

LAS: LatAm South

Rev/hl: revenue per hectoliter

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**Refer to important disclosures on page 9 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 04 March 2024 04:45PM EST

# iQprofile<sup>SM</sup> AmBev

## iQmethod<sup>SM</sup> – Bus Performance\*

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.1%	17.6%	17.1%	18.3%	20.4%
Return on Equity	17.1%	17.8%	17.2%	19.2%	21.6%
Operating Margin	19.2%	21.3%	25.1%	26.8%	28.2%
Free Cash Flow	17,081	18,087	15,118	15,436	18,297

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.7x	1.5x	1.4x	1.5x
Asset Replacement Ratio	1.1x	0.9x	1.0x	1.1x	1.1x
Tax Rate	NM	0.5%	22.7%	23.2%	23.9%
Net Debt-to-Equity Ratio	-13.9%	-15.5%	-18.0%	-17.8%	-17.7%
Interest Cover	5.2x	5.2x	8.4x	11.6x	12.3x

## Income Statement Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Sales	79,712	79,741	78,532	81,994	90,084
% Change	9.4%	0%	-1.5%	4.4%	9.9%
Gross Profit	39,290	40,449	42,429	45,438	51,071
% Change	5.6%	3.0%	4.9%	7.1%	12.4%
EBITDA	23,780	25,319	27,608	29,782	33,418
% Change	4.0%	6.5%	9.0%	7.9%	12.2%
Net Interest & Other Income	(3,596)	(3,804)	(2,530)	(2,004)	(2,132)
<b>Net Income (Adjusted)</b>	<b>14,088</b>	<b>14,561</b>	<b>14,092</b>	<b>15,862</b>	<b>17,862</b>
<b>% Change</b>	<b>11.2%</b>	<b>3.4%</b>	<b>-3.2%</b>	<b>12.6%</b>	<b>12.6%</b>

## Free Cash Flow Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	14,461	14,561	14,092	15,862	17,862
Depreciation & Amortization	5,945	6,419	6,339	6,592	7,236
Change in Working Capital	(1,177)	(22)	745	(459)	357
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	4,385	3,185	343	410	499
Capital Expenditure	(6,533)	(6,057)	(6,400)	(6,970)	(7,657)
<b>Free Cash Flow</b>	<b>17,081</b>	<b>18,087</b>	<b>15,118</b>	<b>15,436</b>	<b>18,297</b>
<b>% Change</b>	<b>-10.6%</b>	<b>5.9%</b>	<b>-16.4%</b>	<b>2.1%</b>	<b>18.5%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(12,242)	(11,922)	(12,869)	(15,436)	(18,297)
Change in Debt	670	(270)	0	0	0

## Balance Sheet Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	15,381	16,336	18,585	18,585	18,585
Trade Receivables	5,349	5,742	5,746	5,999	6,591
Other Current Assets	17,087	14,485	15,016	15,529	16,245
Property, Plant & Equipment	30,056	26,630	26,691	27,069	27,491
Other Non-Current Assets	70,086	69,451	69,451	69,451	69,451
<b>Total Assets</b>	<b>137,958</b>	<b>132,644</b>	<b>135,489</b>	<b>136,633</b>	<b>138,363</b>
Short-Term Debt	983	1,298	1,298	1,298	1,298
Other Current Liabilities	39,558	37,283	38,562	38,870	40,535
Long-Term Debt	2,788	2,203	2,153	2,153	2,201
Other Non-Current Liabilities	11,302	9,292	9,292	9,292	9,292
<b>Total Liabilities</b>	<b>54,630</b>	<b>50,076</b>	<b>51,306</b>	<b>51,613</b>	<b>53,327</b>
<b>Total Equity</b>	<b>83,328</b>	<b>82,568</b>	<b>84,183</b>	<b>85,020</b>	<b>85,035</b>
<b>Total Equity &amp; Liabilities</b>	<b>137,958</b>	<b>132,644</b>	<b>135,489</b>	<b>136,633</b>	<b>138,363</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Brewers

## Company Description

AmBev SA is the world's fourth-largest brewer, and the largest Pepsi bottler outside the US. Beer brands Skol, Brahma and Antarctica have a nearly 67% share of the Brazilian beer market by volume. The company also has operations in Canada via Labatt, and is present in several South and Central American countries. AmBev is controlled by Anheuser-Busch InBev. 1 shr=1 ADR.

## Investment Rationale

We see an improving earnings momentum for Ambev with double-digit EBITDA growth in 2024, mostly driven by Brazil. Cost deflation combined with resilient price/mix should drive a significant margin recovery for Brazil Beer in 2024. Finally, valuation is attractive in our view as the stock is trading at a discount to peers and historical average.

## Stock Data

Average Daily Volume	23,816,430
Shares / ADR	1.00

## Key Changes

(US\$)	Previous	Current
2025E EPS	0.20	0.21
2024E DPS	0.19	0.17

## Reiterate Buy and R\$16/US\$3.2 PO

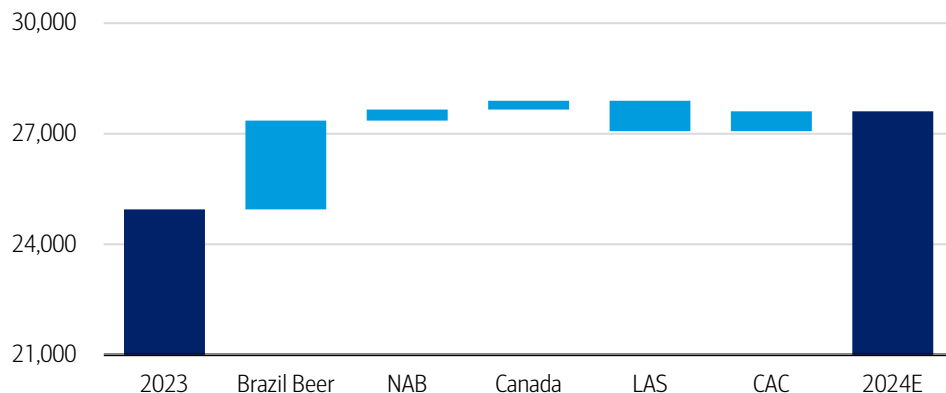
Ambev shares sold off 7% since the 4Q23 results were published last Thursday (before market), vs. the Ibovespa -1% in the same period. We believe the selloff creates a particularly attractive buying opportunity and we reiterate our Buy rating. We fine tune our estimates and keep the PO of R\$16/US\$3.2, which implies 34% total return potential.

Overall, we believe investors we spoke with were disappointed by the guidance on the cash cost per hectoliter for Beer Brazil in 2024, while they believe top line growth should be muted and the stock's valuation is not attractive. We share the view on cost, as guidance points to a 0.5%-3%YoY decline versus our previous expectation of 8% deflation. However, we still think Ambev is set to have another strong year in 2024 and valuation is attractive at 7.7% FCF yield and 13.9x P/E, at the bottom of a 2-year range at 14-16x.

Ambev posted a 11% EBITDA growth in 2023 (20% ex LatAm South - LAS), and we estimate another 9% growth in 2024 (16% ex LAS) to R\$27.6bn. This should be driven by: 1) a 20% growth of Beer Brazil EBITDA given price/mix above inflation, low-single digit volume growth, cost decline and SG&A efficiencies; 2) strong volumes and margin expansion at NAB (non-alcoholic beverages); and 3) continuous recovery of top line and margin at CAC (Central America and Caribbean).

### Exhibit 1: Ambev EBITDA 2024 build-up (R\$mn)

Brazil beer should remain a key driver of growth



Source: BofA Global Research estimates

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### Q1 should be a positive catalyst; +25% EBITDA in Brazil

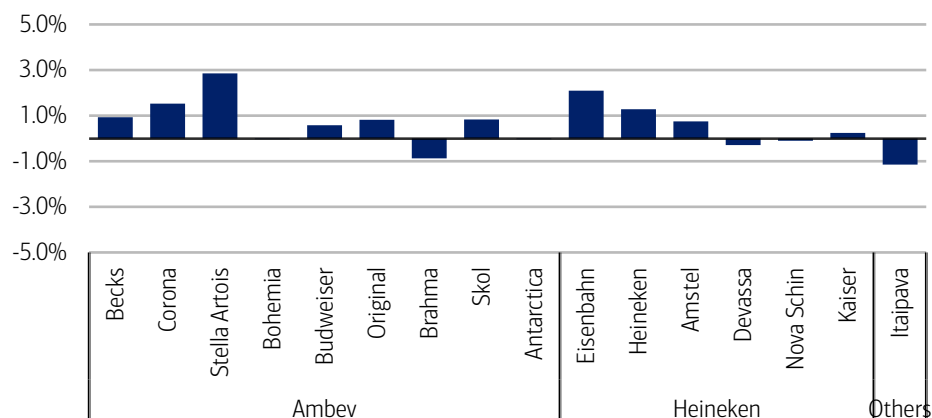
We expect a positive short-term earnings momentum for Ambev. Q1 results should be out in early May, and we estimate an EBITDA growth of 25% in Brazil (beer and NAB). Beer volumes have an easy comp, and management sounded very constructive on Carnival performance, weather helps, the company is running with a very robust portfolio and competitive environment is healthy. On the latter, we are not seeing signs of irrational pricing behavior, while we note competition also has the incentive to increase prices given higher taxes. We estimate beer volumes at +2.5%YoY in 1Q24.

There is also easy comp on costs. As costs have been declining throughout 2023, we estimate cash cost per hectoliter of beer to drop 9% YoY in 1Q24, which combined with SG&A dilution, should drive an EBITDA margin expansion in Brazil of 510bps YoY.

Finally, our channel checks indicate beer prices in Brazil are up in February by ~1.0%MoM, with premium beer +2% and core flattish.

## Exhibit 2: Beer channel checks – prices MoM change in Feb – average between on and off trade

Prices of premium beer rose in February vs. January



Source: BofA Global Research estimates

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## We sense consensus is underestimating beer price/mix

The guidance of cash cost per hectoliter in Brazil at -0.5%-3% was worse than our -8% previous estimate, as previously mentioned. However, we understand the reasons for the mix have some positive compensation at the top line (more premium mix) and on the financial results (AVP – present value adjustments).

On the first, we are more constructive than consensus and believe the Street is underestimating the positive achievements and successful commercial execution of Ambev in the recent years.

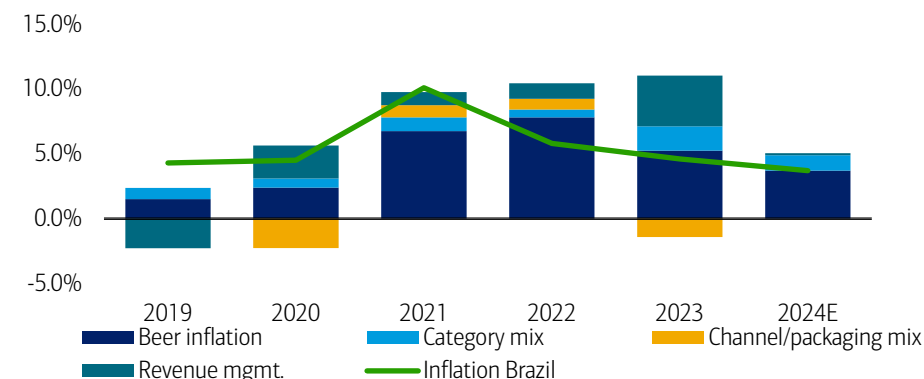
We estimate revenue per hectoliter (rev/hl) for Beer Brazil will be up by 5% (up from 4.5% previously), while consensus is expecting only a 3% increase, below estimated Brazilian inflation at 3.7%.

In 2022-23, Ambev increased rev/hl by 10% on average, versus general inflation in Brazil at 5.3%. We estimate this was a result of: 1) average 6.5% beer inflation in the on-trade and off-trade channels in both years; 2) a 50bps reduction in discounts; 3) a 120bps positive contribution of category mix as premium beer volumes grew 25% in 2023 with beyond beer already accounting for 3% of Brazil Beer revenues; and 4) a 310bps contribution of revenue management, likely given a broader and more efficient implementation of BEES (Ambev's digital platform).

Our 5% estimate for 2024 assumes a 3.7% beer inflation in Brazil and 1.3% contribution from mix and revenue management, but based on the recent performance, we understand that might be some upside risk depending on the revenue management of the company. Premium is growing strongly and we believe Ambev has a very solid brand portfolio, with more frequent innovations and a rational approach towards the core category (see [LatAm Beverages: The "Spaten" phenomenon – survey takes 06 Nov 2023](#) report).

**Exhibit 3: Ambev's beer revenue/hectoliter breakdown**

We estimate revenue management has had a very positive contribution in 2022-23



Source: BofA Global Research estimates

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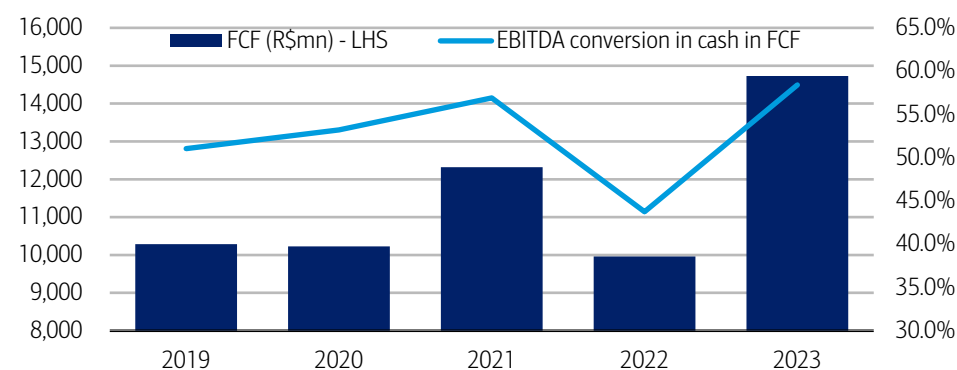
**Cash is king, and Ambev is generating a lot of it**

Aside from the strong operational growth, we believe 2023 highlighted Ambev's ability to generate cash. Free cash flow totaled R\$14.7bn last year, vs. R\$10bn in 2022, driven by a R\$2.5bn EBITDA growth and more than R\$800mn savings on financial expenses, likely driven by lower hedges in Argentina. Financial results totaled R\$700mn in the 4Q23, down R\$300mn YoY, as derivatives losses totaled R\$104mn vs. R\$531mn in the 4Q22. Also, Ambev had in 2023 the best EBITDA conversion into cash in the last 5 years at 58%.

For 2024, we estimate FCF of R\$15.2bn, as capex and leasing combined should decline ~R\$840mn in our estimate, based on management's comments that capex should start dropping in 2024, while financial expenses should total R\$2.5bn, given lower interest rates and lower hedging exposure. We estimate cash taxes should rise to R\$4.3bn from R\$1.6bn in 2022 given lower payment of interest-on-capital, but it could be less than that if the company is able to monetize tax credits, which we leave as an upside risk at this point.

**Exhibit 4: EBITDA cash conversion into free cash flow**

Conversion was the highest in 2023



Source: Ambev, BofA Global Research estimates

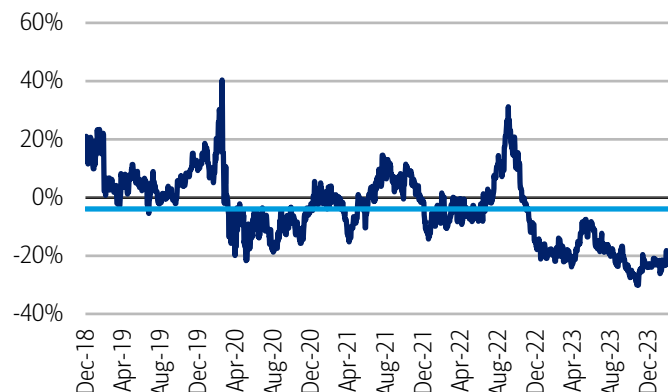
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In this scenario, we see the stock trading at attractive 7.7% FCF yield and 6.5% dividend yield, with limited earnings risks, and at 13.9x P/E in 2024.

Ambev is trading at 25% discount to ABI on EV/EBITDA and P/E basis, versus historical 10% and 4%, respectively. It is also trading at 35% discount to MSCI EM Staples, versus historical discounts of 10% on EV/EBITDA and 20% on P/E basis.

**Exhibit 5: Ambev vs. ABI historical P/E**

Ambev is trading at 25% discount to ABI versus historical 4%

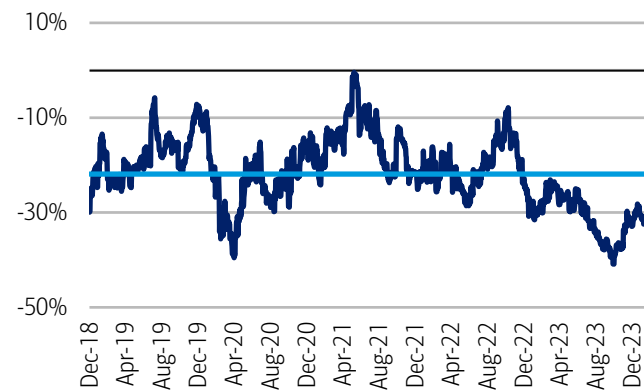


Source: Bloomberg

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**Exhibit 6: Ambev vs. MSCI EM Staples historical P/E**

Ambev is trading at 35% discount to MSCI EM Staples versus historical 20%



Source: Bloomberg

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**Fine tuning estimates post 4Q23 results**

We fine tune our estimates post 4Q23 results, with EPS for 2024E and 2025E of R\$0.90 and R\$1.01 (from R\$0.90 and R\$0.95, respectively). We slightly lower our EBITDA estimates for Brazil in 2024E (by 3%), which is partially offset by higher LAS EBITDA (+3%) given higher margins.

**Exhibit 8: Ambev Old vs. New estimates**

Fine tuning estimates post 4Q23

		2024E	2025E	2025E
Net Revenues (R\$mn)	New Estimates	78,532	81,994	90,084
	Old Estimates	79,168	81,444	89,501
	Change	-0.8%	0.7%	0.7%
Adj. EBITDA (R\$mn)	New Estimates	27,608	29,782	33,418
	Old Estimates	28,086	29,031	33,034
	Change	-1.7%	2.6%	1.2%
Adj. EBITDA Margin	New Estimates	35.2%	36.3%	37.1%
	Old Estimates	35.5%	35.6%	36.9%
	Change	-0.3 pp	0.67 pp	0.18 pp
Net Income (R\$mn)	New Estimates	14,092	15,862	17,862
	Old Estimates	14,215	14,973	17,338
	Change	-0.9%	5.9%	3.0%
EPS (R\$/sh)	New Estimates	0.90	1.01	1.13
	Old Estimates	0.90	0.95	1.10
	Change	-0.9%	5.9%	3.0%

Source: BofA Global Research estimates

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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.

### AmBev (AVBPF)

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## Analyst Certification

I, Isabella Simonato, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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### Latin America - Agribusiness, Food & Beverage Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	3tentos	XTTUF	TTEN3 BZ	Isabella Simonato
	Adecoagro	AGRO	AGRO US	Isabella Simonato
	AmBev	ABEV	ABEV US	Isabella Simonato



## Latin America - Agribusiness, Food &amp; Beverage Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Coca-Cola Femsa	COCSF	KOFUBL MM	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
	Cosan	CSAN	CSAN US	Isabella Simonato
	Gruma	GPAGF	GRUMAB MM	Fernando Olvera
	JBS	JBSAF	JBSS3 BZ	Isabella Simonato
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
<b>NEUTRAL</b>				
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera
	CCU	XLUDF	CCU CI	Fernando Olvera
	CCU - ADR	CCU	CCU US	Fernando Olvera
	M. Dias Branco	XDMIF	MDIA3 BZ	Isabella Simonato
	Minerva	MRVSF	BEEF3 BZ	Isabella Simonato
	Sao Martinho	SRTOF	SMT03 BZ	Isabella Simonato
	SLC Agricola	SLCJF	SLCE3 BZ	Isabella Simonato
<b>UNDERPERFORM</b>				
	BRF	BRFS	BRFS US	Isabella Simonato
	BRF	BRFFF	BRFS3 BZ	Isabella Simonato
	Camil Alimentos	XSREF	CAML3 BZ	Isabella Simonato
	Coca-Cola Andina	AKOBF	ANDINAB CI	Fernando Olvera
	Coca-Cola Andina-ADR	AKOB	AKO/B US	Fernando Olvera
	Cuervo	BCCLF	CUERVO* MM	Fernando Olvera
	SQM	SQM	SQM US	Isabella Simonato

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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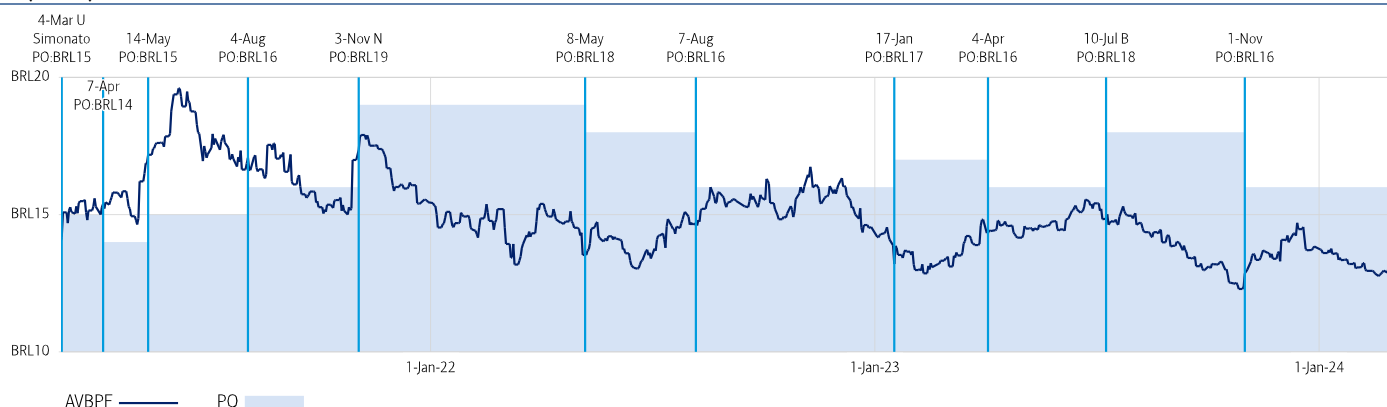
### AmBev (ABEV) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### AmBev (AVBPF) Price Chart



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### Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Dec 2023)

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%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Underperform	N/A	≥ 20%

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