

## AmBev

# 4Q23 preview: margin expansion continues and highlights solid execution – Buy

Reiterate Rating: BUY | PO: 15.50 BRL | Price: 13.34 BRL

## Resilient op. results as stronger Brazil offsets ARS effect

We expect Ambev to report solid 4Q23 results on February 29<sup>th</sup>, before market open. We expect to see the continuation of the margin recovery in Brazil seen in the last couple of quarters, driven by top line resilience, cost deceleration and SG&A efficiencies. These should offset the negative translation effect caused by the 330% devaluation of the Argentina Peso in the year on LAS results. As such, we estimate consolidated Net Revenues of R\$21bn, down 7%YoY, but EBITDA flattish vs. the 4Q22 at R\$7.1bn and margin up 280bps to 34%. Net Income of R\$4.3bn should decline from R\$5.0bn in 4Q22, given different seasonality of interest-on-capital (IOC) provisioning. In 2023, we expect EBITDA for Ambev to grow 12%YoY (20% ex LAS) and EPS to grow 3.3%.

## BZ Beer EBITDA +24%YoY with margin up 500bps

We estimate EBITDA for Brazil Beer at R\$3.8bn, up 24%YoY, and margin of 34%, +500bps vs. the 4Q22. We estimate flattish volumes, given a tough comp in 4Q22 (World Cup), which highlights demand remains solid, while there are no signs of pricing deceleration (revenue per hectoliter +6%YoY). Ambev is still benefitting from price hikes in the last twelve months and mix, given the growth of premium beer. Meanwhile, we estimate cost per hectoliter to drop 3%YoY and SG&A to be flat in nominal terms. Results for the NAB are affected by worse mix but offset by lower costs and SG&A.

## International: CAC recovery, LAS translation, weak Canada

Outside Brazil, CAC remains the highlight as the recovery of top line and margins continues (EBITDA +23%YoY). Canada's top line is pressured, and the company is focusing on cutting SG&A. Finally, LAS EBITDA should be down by 45%YoY, mainly given the negative impact from the ARS devaluation, while margin remains relatively solid.

## Reiterate Buy: Brazil Beer margins are the key driver

We are optimistic about further margin recovery for beer in Brazil in 2024, driven by cost deflation and SG&A deceleration, while top line remains resilient. The changes on IOC regulation negative impacts earnings, but are known and priced in.

Estimates(Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	0.81	0.89	0.89	1.01	1.03
EPS Change (YoY)	14.1%	9.9%	0%	13.5%	2.0%
DPS	0.71	0.78	0.82	0.96	1.08
ADR EPS (US\$)	0.15	0.18	0.18	0.20	0.19
ADR DPS (US\$)	0.13	0.15	0.16	0.19	0.20
<b>Valuation (Dec)</b>					
P/E	16.5x	15.0x	15.0x	13.2x	13.0x
Dividend Yield	5.3%	5.8%	6.1%	7.2%	8.1%
EV / EBITDA*	8.9x	8.5x	8.0x	7.2x	6.7x
Free Cash Flow Yield*	9.1%	8.1%	6.9%	7.9%	8.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

19 January 2024

### Equity

**Isabella Simonato >>**  
Research Analyst  
Merrill Lynch (Brazil)  
+55 11 2188 4243  
isabella.simonato@bofa.com

**Fernando Olvera >>**  
Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 3473  
folvera@bofa.com

### Stock Data

Price (Common / ADR)	13.34 BRL / 2.70 USD
Price Objective	15.50 BRL / 3.00 USD
Date Established	1-Nov-2023 / 1-Nov-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	12.28 BRL - 15.78 BRL
Market Value (mn)	209,733 BRL
Free Float	28.0%
Average Daily Value	56.34 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)	17.2%
Net Dbt to Eqty (Dec-2022A)	-13.9%

LAS – LatAm South

CAC – Central America and Caribbean

ARS – Argentine Peso

NAB – Non-alcoholic beverages

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**Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 19 January 2024 11:51AM EST

# iQprofile<sup>SM</sup> AmBev

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

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.1%	16.1%	17.2%	19.5%	19.4%
Return on Equity	16.2%	17.1%	17.2%	19.3%	19.7%
Operating Margin	21.1%	19.2%	21.0%	25.6%	26.7%
Free Cash Flow	19,115	17,081	14,387	16,535	16,936

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

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.1x	1.7x	1.4x	1.4x	1.4x
Asset Replacement Ratio	1.4x	1.1x	0.9x	1.0x	1.0x
Tax Rate	4.6%	NM	3.3%	13.1%	19.0%
Net Debt-to-Equity Ratio	-18.4%	-13.9%	-7.2%	-8.7%	-8.7%
Interest Cover	5.5x	5.2x	5.1x	7.2x	8.1x

## Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	72,854	79,712	81,094	79,990	85,187
% Change	24.8%	9.4%	1.7%	-1.4%	6.5%
Gross Profit	37,194	39,290	41,166	44,419	47,529
% Change	18.8%	5.6%	4.8%	7.9%	7.0%
EBITDA	22,869	23,780	25,305	28,015	30,015
% Change	7.1%	4.0%	6.4%	10.7%	7.1%
Net Interest & Other Income	(3,714)	(3,596)	(3,657)	(3,044)	(2,907)
<b>Net Income (Adjusted)</b>	<b>12,671</b>	<b>14,088</b>	<b>14,079</b>	<b>15,840</b>	<b>16,168</b>
<b>% Change</b>	<b>12.9%</b>	<b>11.2%</b>	<b>-0.1%</b>	<b>12.5%</b>	<b>2.1%</b>

## Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	12,671	14,461	14,079	15,840	16,168
Depreciation & Amortization	5,396	5,945	6,631	6,183	6,508
Change in Working Capital	4,869	(1,177)	(3,418)	329	139
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	3,526	4,385	2,779	583	511
Capital Expenditure	(7,347)	(6,533)	(5,684)	(6,400)	(6,389)
<b>Free Cash Flow</b>	<b>19,115</b>	<b>17,081</b>	<b>14,387</b>	<b>16,535</b>	<b>16,936</b>
<b>% Change</b>	<b>2.2%</b>	<b>-10.6%</b>	<b>-15.8%</b>	<b>14.9%</b>	<b>2.4%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(11,115)	(12,242)	(12,861)	(15,075)	(16,936)
Change in Debt	(1,692)	670	(53)	0	0

## Balance Sheet Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	18,542	15,381	9,705	11,164	11,164
Trade Receivables	4,792	5,349	5,031	5,295	5,639
Other Current Assets	15,293	17,087	15,259	14,537	15,180
Property, Plant & Equipment	29,224	30,056	29,098	29,315	29,197
Other Non-Current Assets	70,751	70,086	71,436	71,436	71,436
<b>Total Assets</b>	<b>138,603</b>	<b>137,958</b>	<b>130,529</b>	<b>131,748</b>	<b>132,617</b>
Short-Term Debt	847	983	1,236	1,236	1,236
Other Current Liabilities	38,019	39,558	33,709	33,581	34,707
Long-Term Debt	2,253	2,788	2,492	2,595	2,595
Other Non-Current Liabilities	13,465	11,302	10,025	10,025	10,025
<b>Total Liabilities</b>	<b>54,585</b>	<b>54,630</b>	<b>47,463</b>	<b>47,437</b>	<b>48,563</b>
<b>Total Equity</b>	<b>84,018</b>	<b>83,328</b>	<b>83,067</b>	<b>84,311</b>	<b>84,054</b>
<b>Total Equity &amp; Liabilities</b>	<b>138,603</b>	<b>137,958</b>	<b>130,529</b>	<b>131,748</b>	<b>132,617</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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. Moreover, elections in Argentina could be an upside risk to the shares. 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	21,180,060
Shares / ADR	1.00

# Ambev 4Q23 preview

## Exhibit 1: Ambev 4Q23 preview

We estimate Beer BZ margins to continue to expand YoY

AmBev	4Q23E	3Q23A	QoQ	4Q22A	YoY
<b>Beer - Brazil (R\$mn) - Ex BEES</b>					
Volumes ('000 hl)	26,640	23,213	14.8%	26,605	0.1%
Net Revenues	11,197	9,281	20.6%	10,549	6.1%
Adj. EBITDA	3,807	3,175	19.9%	3,067	24.1%
Adj. EBITDA margin	34.0%	34.2%	-0.2 p.p.	29.1%	4.9 p.p.
<b>Soft Drinks - Brazil (R\$mn)</b>					
Volumes ('000 hl)	9,168	8,212	11.6%	9,032	1.5%
Net Revenues	2,114	1,806	17.0%	2,022	4.5%
Adj. EBITDA	504	455	10.7%	481	4.6%
Adj. EBITDA margin	23.8%	25.2%	-1.4 p.p.	23.8%	0.0 p.p.
<b>Brazil - consolidated (R\$mn)</b>					
Volumes ('000 hl)	35,808	31,425	13.9%	35,637	0.5%
Net Revenues	13,311	11,087	20.1%	12,571	5.9%
EBITDA	4,310	3,630	18.8%	3,549	21.5%
EBITDA margin	32.4%	32.7%	-0.4 p.p.	28.2%	4.2 p.p.
<b>Canada - Labatt (R\$mn)</b>					
Volumes ('000 hl)	2,087	2,486	-16.1%	2,197	-5.0%
Net Revenues	2,267	2,592	-12.5%	2,347	-3.4%
EBITDA	512	765	-33.1%	486	5.4%
EBITDA margin	22.6%	29.5%	-6.9 p.p.	20.7%	1.9 p.p.
<b>LAS - Total (R\$mn)</b>					
Volumes ('000 hl)	10,662	8,308	28.3%	11,223	-5.0%
Net Revenues	2,758	3,849	-28.4%	4,800	-42.5%
EBITDA	1,122	1,225	-8.4%	2,031	-44.7%
EBITDA margin	40.7%	31.8%	8.9 p.p.	42.3%	-1.6 p.p.
<b>CAC (R\$mn)</b>					
Volumes ('000 hl)	3,330	3,125	6.6%	3,112	7.0%
Net Revenues	2,711	2,387	13.6%	2,606	4.0%
EBITDA	1,234	922	33.8%	1,004	23.0%
EBITDA margin	45.5%	38.6%	6.9 p.p.	38.5%	7.0 p.p.
<b>Consolidated</b>					
Volumes ('000 hl)	51,887	45,344	14.4%	52,169	-0.5%
Net Revenues	21,046	20,319	3.6%	22,695	-7.3%
EBITDA	7,179	6,585	9.0%	7,114	0.9%
EBITDA margin	34.1%	32.4%	1.7 p.p.	31.3%	2.8 p.p.
Adj. EBITDA	7,179	6,584	9.0%	7,114	0.9%
Adj. EBITDA margin	34.1%	32.4%	1.7 p.p.	31.3%	2.8 p.p.
Net Income	4,310	3,929	9.7%	4,969	-13.2%
EPS (R\$/share)	0.27	0.25	9.7%	0.32	-13.3%
Adj. Net Income	4,310	3,936	9.5%	5,300	-18.7%
Adj. EPS (R\$/share)	0.27	0.25	9.5%	0.34	-18.7%

Source: BofA Global Research estimates

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## Price objective basis & risk

### AmBev (AVBPF)

Our R\$15.5/share (US\$3.0/ADR) price objective for AmBev is based on a 50/50% blend of a discounted cash flow (DCF) model and a target multiple of 15.5x 2024E P/E, a 15% discount to 3-years average given recent increase in cost of capital. We base our weighted-average cost of capital (WACC) of 13.4% on the average WACC in each one of the countries in which AmBev operates (13.2% for Brazil, 22.4% for Argentina and 7.9% 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 and ARS, 4) 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 (ABEV)

Our R\$15.5/share (US\$3.0/ADR) price objective for AmBev is based on a 50/50% blend of a discounted cash flow (DCF) model and a target multiple of 15.5x 2024E P/E, a 15% discount to 3-years average given recent increase in cost of capital. We base our weighted-average cost of capital (WACC) of 13.4% on the average WACC in each one of the countries in which AmBev operates (13.2% for Brazil, 22.4% for Argentina and 7.9% 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 and ARS, 4) faster than expected growth of the premium and near beer categories in Brazil.

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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.

## Special Disclosures

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	3tentos	XTTUF	TTEN3 BZ	Isabella Simonato
	Adecoagro	AGRO	AGRO US	Isabella Simonato
	AmBev	ABEV	ABEV US	Isabella Simonato
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Coca-Cola Femsa	COCF	KOFUBL MM	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
	Cosan	CSAN	CSAN US	Isabella Simonato
	Gruma	GPAGF	GRUMAB MM	Fernando Olvera
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
<b>NEUTRAL</b>				
	CCU	XLUDF	CCU CI	Fernando Olvera
	CCU - ADR	CCU	CCU US	Fernando Olvera
	JBS	JBSAF	JBSS3 BZ	Isabella Simonato
	M. Dias Branco	XDMIF	MDIA3 BZ	Isabella Simonato
	Minerva	MRVSF	BEEF3 BZ	Isabella Simonato
	Sao Martinho	SRTOF	SMT03 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
	SLC Agrícola	SLCJF	SLCE3 BZ	Isabella Simonato
	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 & 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

**iQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

**iQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

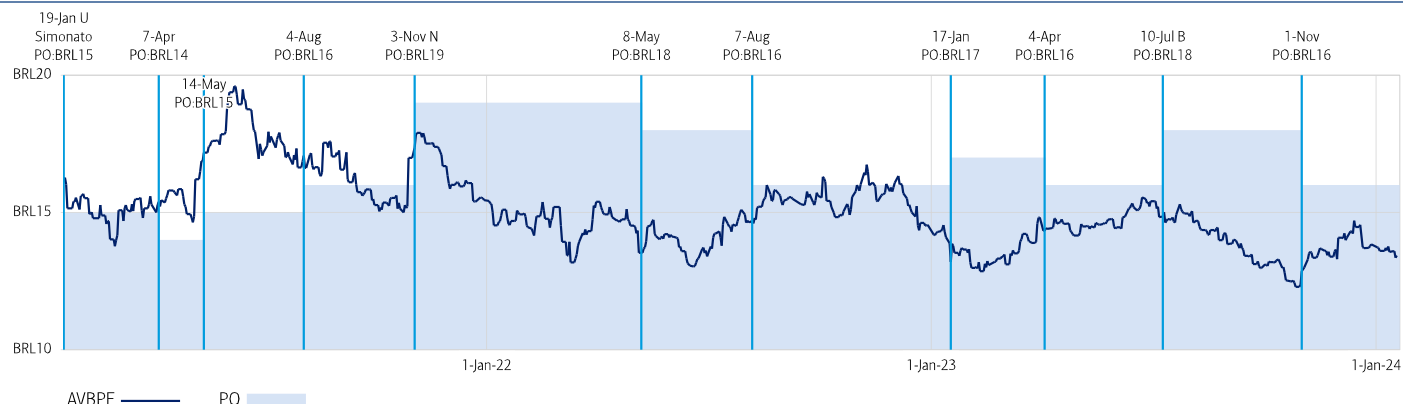
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# Disclosures

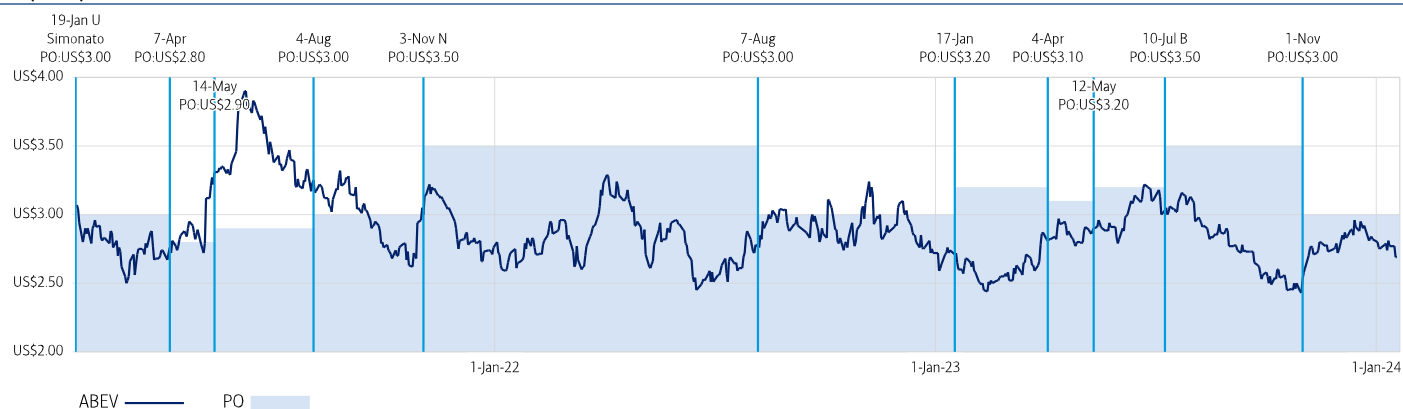
## Important Disclosures

### AmBev (AVBPF) Price Chart



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 (ABEV) 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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