

AmBev

Reiterate Buy: back to fundamentals, and they are solid; adjusting ests/ and PO

Reiterate Rating: BUY | PO: 16.00 BRL | Price: 13.35 BRL

Solid momentum, earnings risks are known and priced in

We reiterate our Buy on Ambev with R\$16/\$3.2 PO (from R\$15.5/\$3.0), which provides 18% potential upside and total potential return of 25%. Ambev underperformed the Ibovespa by 27% in 2023, mainly given earnings risks from the Tax Reform in Brazil. Now, the final decision on interest-on-capital (IOC) is out and priced-in, and we believe solid fundamentals will be again the driver of the shares: 1) higher and sticky beer prices; 2) COGS deflation and lower SG&A accelerating margin expansion; and 3) discounted valuation.

We remain confident on Brazil Beer mg. expansion in 2024

2023 was an inflection point for Ambev's beer business in Brazil. EBITDA margin should recover 480bps YoY, after five years of contraction. In our view, the key driver was the company's commercial transformation (innovation, portfolio enhancement, digitalization of the route-to-market). We expect such strategy to continue to be very supportive of margins in 2024, enhanced by sticky beer prices, lower costs, and synergies on SG&A. We estimate Brazil Beer EBITDA margin to be up by 500bps this year to 36.9%.

Argentina is a headwind, but Brazil to support growth

We estimate consolidated EBITDA to grow 13% in 2024 (20% ex LatAm South). We are 3% below consensus, but mainly given the depreciation of the Argentine Peso (EBITDA for LAS is 29% below consensus). Nonetheless, we expect Brazil to be key driver of earnings growth going forward, with EBITDA CAGR 23-26E of 14%, vs. consensus' 10%.

Discounted valuation vs. Staples/ABI; margin is catalyst

We lower our EPS by 11% to R\$0.90 in 2024, to account for higher effective tax rate at 22.6%, from 13%, after changes to IOC in Brazil (see Exhibit 16). We see Ambev trading at 7.2x EV/EBITDA and 14.8x P/E. Valuation is at greater discount than historical average relative to ABI and EM Staples. In our view, there is room for such discount to narrow, if margin expansion in Brazil is delivered. This is similar to the view from BofA US and EMEA Beverages teams (see [EMEA](#) & [US](#) Year Ahead). As such, we our target P/E for 2024 from 15.5x to 17x, which implies a discount to peers in line with historical average.

Estimates(Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	0.81	0.89	0.92	0.90	0.95
EPS Change (YoY)	14.1%	9.9%	3.4%	-2.2%	5.6%
DPS	0.71	0.78	0.82	0.93	1.04
ADR EPS (US\$)	0.15	0.18	0.18	0.18	0.20
ADR DPS (US\$)	0.13	0.15	0.16	0.19	0.21
Valuation (Dec)					
P/E	16.5x	15.0x	14.5x	14.8x	14.1x
Dividend Yield	5.3%	5.8%	6.1%	7.0%	7.8%
EV / EBITDA*	8.9x	8.5x	8.0x	7.2x	7.0x
Free Cash Flow Yield*	9.1%	8.1%	7.0%	7.2%	7.8%

* For full definitions of *IQmethod*SM measures, see page 11.

22 January 2024

Equity

Key Changes

(BRL)	Previous	Current
Price Obj.	15.50	16.00
2023E Rev (m)	81,093.6	80,796.2
2024E Rev (m)	79,989.7	79,167.6
2025E Rev (m)	85,187.0	81,443.7
2023E EPS	0.89	0.92
2024E EPS	1.01	0.90
2025E EPS	1.03	0.95

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)	13.35 BRL / 2.70 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)	209,891 BRL
Free Float	28.0%
Average Daily Value	57.37 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%

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Refer to important disclosures on page 12 to 15. Analyst Certification on page 10. Price Objective Basis/Risk on page 10.

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iQprofileSM AmBev

iQmethodSM – Bus Performance*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.1%	16.1%	17.2%	17.5%	18.2%
Return on Equity	16.2%	17.1%	17.8%	17.7%	18.8%
Operating Margin	21.1%	19.2%	21.2%	26.1%	27.0%
Free Cash Flow	19,115	17,081	14,589	15,163	16,339

iQmethodSM – Quality of Earnings*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.1x	1.7x	1.4x	1.5x	1.5x
Asset Replacement Ratio	1.4x	1.1x	0.9x	1.0x	1.0x
Tax Rate	4.6%	NM	0.9%	22.5%	22.7%
Net Debt-to-Equity Ratio	-18.4%	-13.9%	-7.5%	-8.2%	-8.3%
Interest Cover	5.5x	5.2x	5.1x	7.3x	8.2x

Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	72,854	79,712	80,796	79,168	81,444
% Change	24.8%	9.4%	1.4%	-2.0%	2.9%
Gross Profit	37,194	39,290	41,013	43,863	45,653
% Change	18.8%	5.6%	4.4%	7.0%	4.1%
EBITDA	22,869	23,780	25,344	28,086	29,031
% Change	7.1%	4.0%	6.6%	10.8%	3.4%
Net Interest & Other Income	(3,714)	(3,596)	(3,708)	(2,996)	(2,767)
Net Income (Adjusted)	12,671	14,088	14,443	14,215	14,973
% Change	12.9%	11.2%	2.5%	-1.6%	5.3%

Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	12,671	14,461	14,443	14,215	14,973
Depreciation & Amortization	5,396	5,945	6,615	6,125	6,258
Change in Working Capital	4,869	(1,177)	(3,458)	399	728
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	3,526	4,385	2,673	423	489
Capital Expenditure	(7,347)	(6,533)	(5,684)	(6,000)	(6,108)
Free Cash Flow	19,115	17,081	14,589	15,163	16,339
% Change	2.2%	-10.6%	-14.6%	3.9%	7.8%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(11,115)	(12,242)	(12,900)	(14,626)	(16,339)
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	9,869	10,406	10,406
Trade Receivables	4,792	5,349	4,961	5,330	5,483
Other Current Assets	15,293	17,087	15,090	14,623	14,008
Property, Plant & Equipment	29,224	30,056	29,114	28,989	28,839
Other Non-Current Assets	70,751	70,086	71,436	71,436	71,436
Total Assets	138,603	137,958	130,470	130,784	130,173
Short-Term Debt	847	983	1,236	1,236	1,236
Other Current Liabilities	38,019	39,558	33,430	33,732	33,998
Long-Term Debt	2,253	2,788	2,389	2,337	2,337
Other Non-Current Liabilities	13,465	11,302	10,025	10,025	10,025
Total Liabilities	54,585	54,630	47,080	47,330	47,596
Total Equity	84,018	83,328	83,390	83,454	82,577
Total Equity & Liabilities	138,603	137,958	130,470	130,784	130,173

* For full definitions of iQmethodSM measures, see page 11.

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	21,180,060
Shares / ADR	1.00

Key Changes

(US\$)	Previous	Current
Price Obj.	3.00	3.20
2024E EPS	0.20	0.18
2025E EPS	0.19	0.20

Reiterate Buy on Ambev; R\$16/US\$3.2 PO

Bad news is known and priced in, back to fundamentals

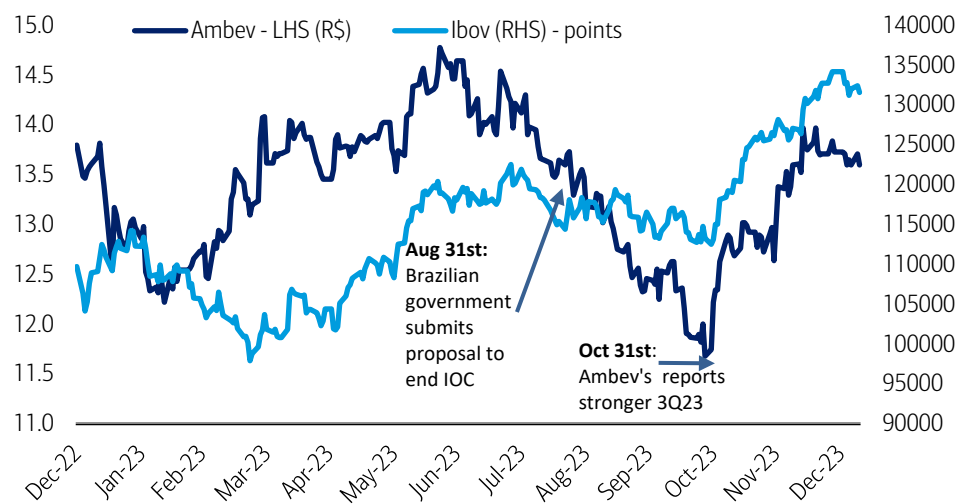
We reiterate our Buy rating on Ambev with R\$16/US\$3.2 PO (from R\$15.5/US\$3.0), which provides 18% upside and total return of 25%. Ambev underperformed the Ibovespa by 27% in 2023, mainly given earnings risks amid the Tax Reform in Brazil.

On December 29th, the Law 14.789/2023 was published, defining the new criteria for the payment of interest-on-capital (IOC). In a nutshell, it limits over which shareholders' equity accounts the IOC can be paid. For Ambev, we estimate IOC payments should decline from ~R\$11-12bn in 2022-23 to R\$4bn-4.5bn, increasing effective tax rate by 9-10p.p., versus mid-single digit in recent years (and previous estimate of 13% in 2024).

The good news is that the bad news is known and is priced in, in our view. In this scenario, we believe fundamentals should be again the driver of Ambev's share performance. And they are good: 1) beer prices are up and are sticking; 2) COGS deflation and SG&A efficiencies should accelerate the margin expansion in Brazil that started in 2023; and 3) Ambev is trading at discounted valuation relative to peers.

Exhibit 1: Ambev's performance versus the Ibovespa in 2023 (in Reais)

Ambev underperformed mainly given risks to earnings arising from the Tax Reform in Brazil



Source: Bloomberg

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Back to the front seat, Beer BZ to lead growth going fwd.

Ambev had an EBITDA CAGR of 9% between the bottom in 2020 and 2023E, with LatAm South (LAS) and NAB (Brazilian non-alcoholic beverages) outperforming, Canada underperforming and Brazil Beer performing in line with consolidated results.

We expect Brazil to lead Ambev's EBITDA growth going forward. We estimate a CAGR 2023-26 of 9.4%, with Brazil Beer posting 14% CAGR and NAB +14.5%. We also expect margin recovery in CAC (Central America and Caribbean) and Canada. In Brazil, growth should be a combination of mid-single digit top line growth and 700bps margin expansion between 2023-26, of which 500bps should be already captured this year.

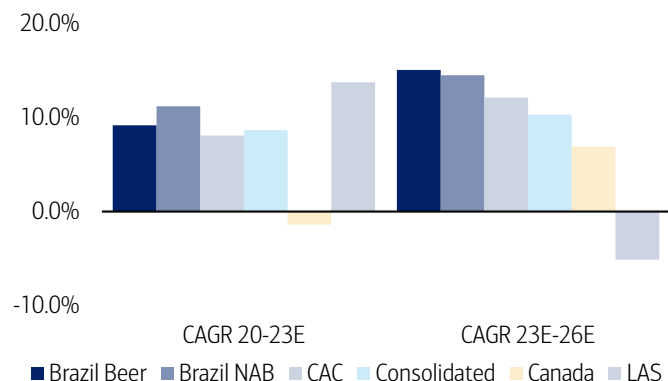
On the negative side, we estimate a negative CAGR of 9% for LAS, mainly given the impact of a major depreciation of the Argentine Peso (ARS). BofA Economists forecast a 88% depreciation of the ARS throughout 2024 and 93% in 2025. We assume such depreciation in our model and, although we expect Ambev to increase prices in line with inflation, it shouldn't be enough to fully offset the impact on consolidated results.



In this scenario, our 2024 EBITDA for Ambev of R\$28bn is 3% below Visible Alpha consensus, as we are 29% below on LAS, but slightly ahead in Brazil.

Exhibit 2: Ambev's EBITDA CAGR per business

Brazil should drive growth between 2023-26E

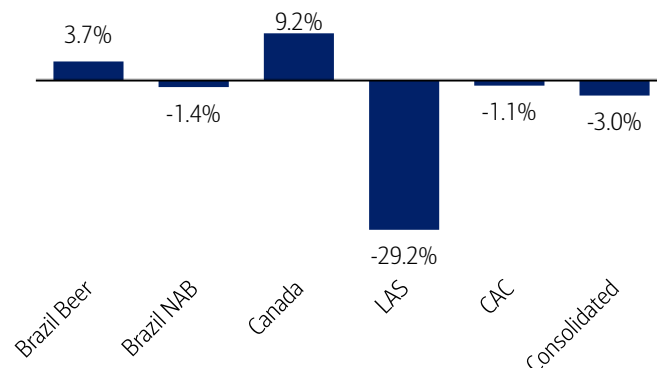


Source: Ambev, BofA Global Research

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Exhibit 3: BofA 2024E EBITDA versus consensus

We are below consensus given much lower estimates for LAS



Source: Visible Alpha, BofA Global Research

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We are confident on beer margin recovery in Brazil

2023 was an inflection point for Ambev's beer business in Brazil. EBITDA margin should recover 480bps YoY, after five years of contraction. In our view, the key driver was the company's commercial transformation. We expect such strategy to continue to be very supportive of margins in 2024, enhanced by sticky beer prices, lower costs, and synergies on SG&A. We estimate EBITDA mg. to be up by 510bps this year to 36.9%.

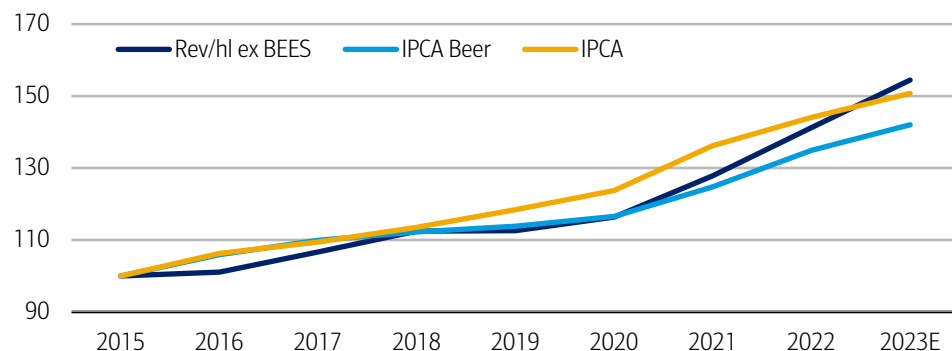
1) Commercial transformation will continue to support earnings

We upgraded Ambev to Buy from Neutral in July/2023 given, among other things, a much higher confidence the company was going through a big commercial transformation on beer in Brazil, turning around a business that was facing several challenges since 2016. Such transformation has been driven by portfolio growth and innovation, and digitalization of the route-to-market through BEES (digital sales platform) and Ze Delivery (direct to consumer channel).

We believe there are two data points that support our view: 1) revenue per hectoliter performance; and 2) market share. On the first, Ambev has been delivering revenue per hectoliter of beer in Brazil above general inflation and beer inflation. This shows the benefit of a more premium portfolio, reopening of the on-trade post the pandemic, and revenue management (lower discounts, more granular price increases).

Exhibit 4: Ambev's revenue per hectoliter at Beer Brazil versus inflation

Ambev's realized prices have been growing above inflation mainly given revenue management



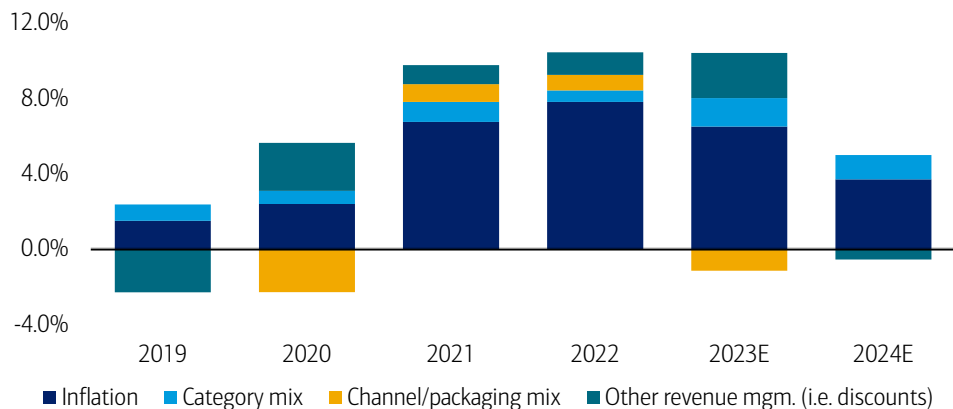
Source: IBGE, Ambev, BofA Global Research

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We expect Ambev to continue to be able to deliver realized prices growing above general inflation in Brazil as those drivers remain in place. We assume 100bps premium over a 4% generational inflation in the next three years.

Exhibit 5: Ambev's beer revenue per hectoliter breakdown

We estimate Ambev has been increasing prices above inflation given portfolio and revenue management



Source: Ambev, BofA Global Research estimate

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At the same time Ambev has been increasing prices, it has been able to gain market share. As we discuss in our report [LatAm Beverages: The "Spaten" phenomenon – survey takes 06 November 2023](#); Ambev has been gaining market share in Brazil, mainly from Petropolis, which filed for Chapter 11 in 2023, but Heineken's share has also been sideways.

We estimate Ambev gained 130bps of share of preference between May/23 and our latest survey in Nov/23, and 530bps since 2022. Meanwhile, Heineken lost 20bps vs. May and 260bps since 2022, with Petropolis down 90bps and 260bps, respectively. Spaten was launched by Ambev in 2021 has been a great example of innovation, having an estimated preference share of 3.5%

Exhibit 6: Heineken is favorite, but Ambev offsets with Spaten/ Bud

Q: What are your preferred beer brands? (Check all that apply)

	2018	2019	2020	2021	2022	May-23	Nov-23
Heineken	10.1%	10.5%	10.4%	11.8%	12.4%	11.8%	12.9%
Brahma	9.9%	9.7%	8.3%	9.3%	9.4%	12.6%	12.5%
Budweiser	9.7%	9.6%	9.7%	10.6%	9.4%	8.5%	8.4%
Amstel	6.1%	6.4%	6.1%	7.6%	7.2%	8.0%	8.3%
Bohemia	5.0%	5.3%	5.6%	6.2%	5.5%	7.4%	7.0%
Skol	8.0%	8.7%	7.8%	8.1%	7.5%	6.1%	5.8%
Stella Artois	7.2%	6.4%	6.1%	6.7%	7.3%	6.4%	5.5%
Corona	4.5%	4.6%	5.4%	5.9%	5.6%	5.5%	4.5%
Antarctica	6.2%	5.5%	4.4%	4.4%	4.7%	4.3%	4.4%
Eisenbahn	4.9%	5.4%	4.8%	5.5%	5.6%	4.4%	3.7%
Spaten							3.6%
Original	3.9%	3.2%	3.8%	4.0%	4.1%	4.1%	3.6%
Itaipava	4.7%	5.3%	4.7%	4.6%	4.6%	3.9%	3.2%
Petra			2.6%	4.4%	3.7%	3.3%	2.9%
Becks			1.1%	1.1%	1.1%	2.0%	1.8%
Heineken Zero							1.7%
Devassa	2.3%	2.6%	2.4%	2.9%	2.8%	2.3%	1.5%
Budweiser Zero							1.2%
Crystal	1.6%	2.1%	1.3%	1.7%	1.5%	1.2%	1.2%
Kaiser	2.8%	3.0%	1.8%	1.7%	1.8%	1.4%	1.0%
Nova Schin	1.1%	1.2%	1.0%	1.3%	1.2%	0.9%	0.8%
Michelob Ultra						0.7%	0.6%

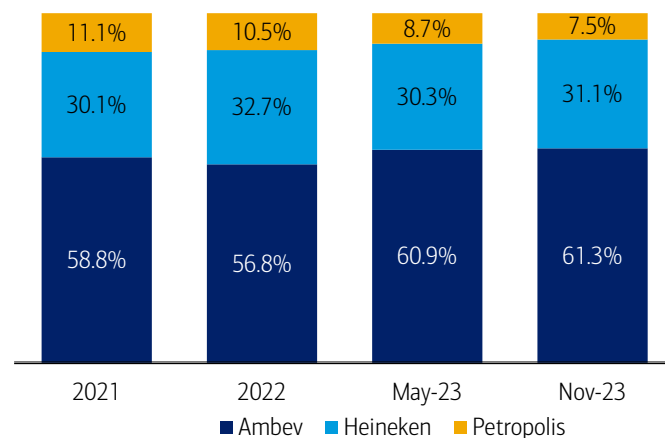
Source: BofA Global Research survey

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Exhibit 7: Ambev is gaining volume share, Petropolis losing

Q: Which brands do you usually buy?

Note: Considers Heineken, Ambev and Petropolis as 100%



Source: BofA Global Research survey

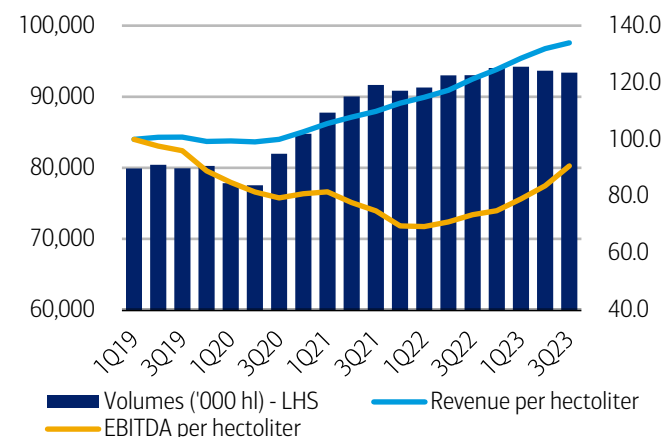
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Beer prices are up and sticky, despite tough volume comp

We see a still competitive but much more rational beer market in Brazil versus a couple of years ago. This has allowed Ambev to increase volumes at the same time it increased prices and started to recover margins. Despite a tough comp for volumes, we are still seeing a combination of resilient demand and sticky prices. Our channel checks show that beer prices for the main brands have been flat/up since September/2023, and such price hikes have been mainly led by Ambev.

Exhibit 8: Ambev Brazil beer volumes, prices, and EBITDA per hectoliter (LTM)

Ambev has been able to grow volumes coupled with higher prices, which drove EBITDA per hectoliter up since 1Q22

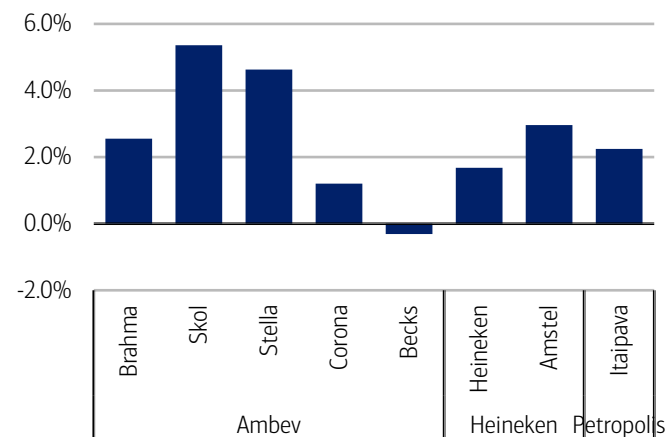


Source: Ambev, BofA Global Research

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Exhibit 9: Channel checks beer prices - % change Jan/24 v. Sep/23

Beer prices went up in 4Q23, mainly driven by Ambev



Note: Channel checks conducted online, based on ~700 points of sale

Source: BofA Global Research

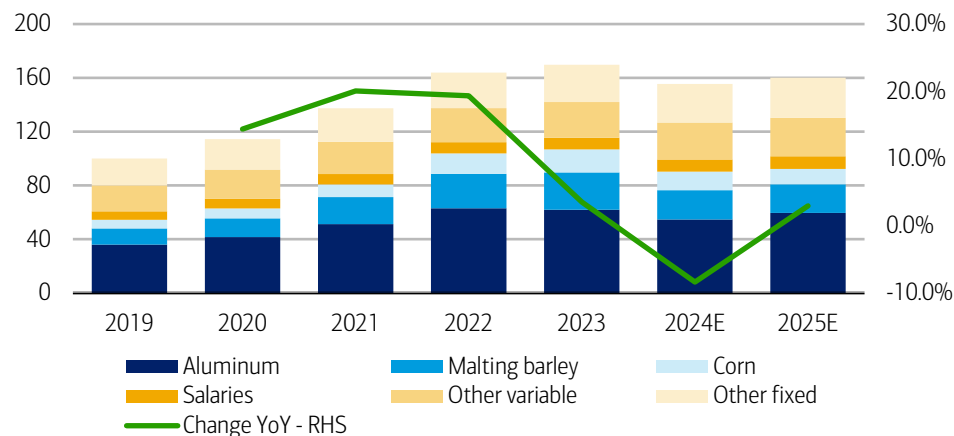
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COGS deflation to accelerate the margin expansion that started in '23

We expect margin expansion for Beer Brazil to accelerate in 2024 relative to 2023, given lower production costs, while top line remains resilient. Lower costs started to kick in in the 2H23 and we estimate average cash cost per hectoliter will decline 8%-9%YoY in 2024, driven by lower commodity prices in USD terms, inflation deceleration and more stable Brazilian Real.

Exhibit 10: COGS performance breakdown (Base = 100)

COGS per hectoliter for Beer BZ should drop ~9%YoY in 2024



Source: Ambev, Bloomberg, BofA Global Research estimates

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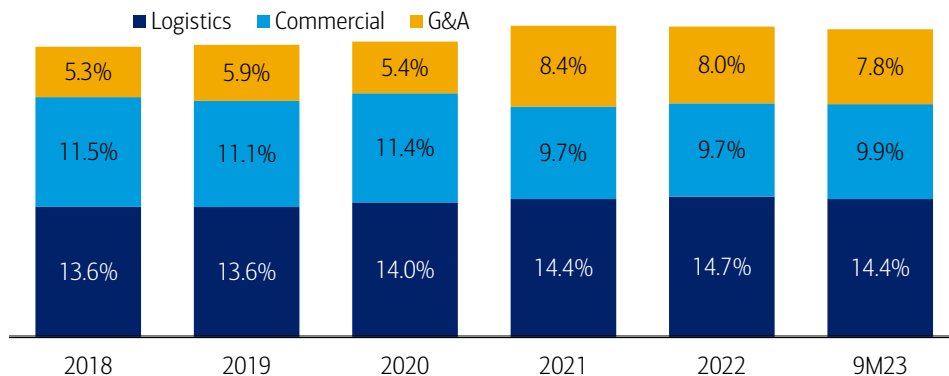
SG&A deceleration given normalization of the cost of doing business

We believe the normalization of SG&A expenses, mainly at Ambev's Beer Brazil business, should be a tailwind for margin expansion in 2024. We estimate SG&A as a % of sales to decline 80bps YoY with total SG&A rising less than Brazilian inflation.

The main drivers should be: 1) reduced logistics costs following lower fuel prices and synergies on the last mile of Ze Delivery; 2) stabilization of lower commercial costs, as seen in the 9M23; and 3) G&A synergies as new businesses ramp-up, while there is a tough comp on compensation.

Exhibit 11: SG&A breakdown in Brazil as % of sales

There are signs of SG&A dilution in 2023



Source: Ambev, BofA Global Research estimates

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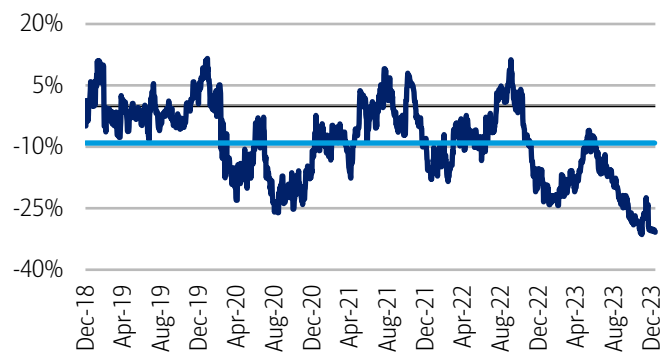
Valuation: discounted valuation versus peers

At our new estimates, we see the stock trading at 7.2x EV/EBITDA and 14.8x P/E. The stock is trading at greater discount than historically relative to ABI and EM Staples on EV/EBITDA basis. The gap is of 18p.p. relative to ABI and MSCI EM Staples. On a P/E basis, current discount to ABI is also higher than historical at 17%, versus historical 3%. The 28% discount to MSCI is also higher than the historical average of 22%.

In our view, there is room for such discount to narrow closer to historical, if margin expansion in Brazil is delivered, which is key metric of the company's execution. This is similar to the view from BofA US and EMEA Beverages teams (see [EMEA Year Ahead](#) and [US Year Ahead](#)), who believe further re-rating of Staples companies can happen given lower global rates, but depends on the individual performances of the companies.

Exhibit 12: Historical discount – Ambev vs. ABI – EV/EBITDA

Ambev's relative discount is higher than historical

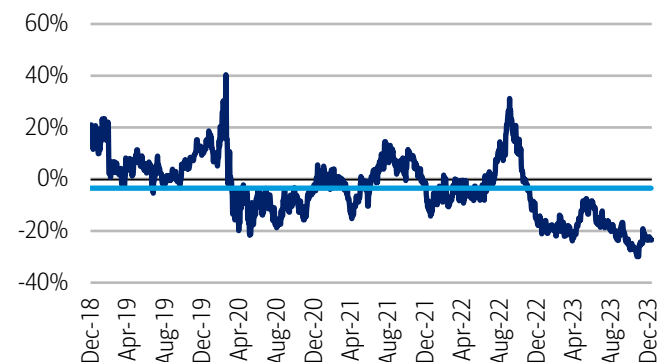


Source: Bloomberg

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Exhibit 13: Historical discount – Ambev vs. ABI – P/E

Ambev's relative discount is higher than historical

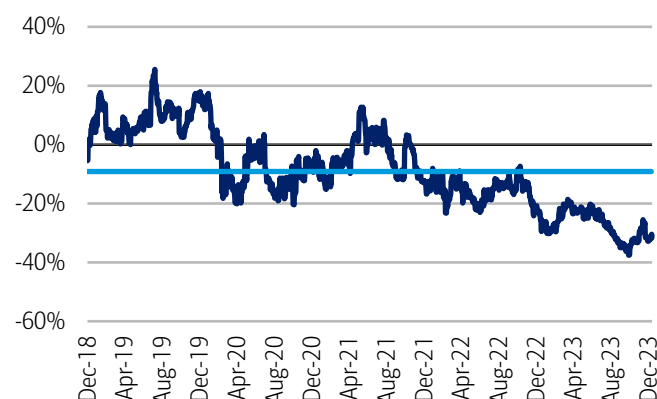


Source: Bloomberg

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Exhibit 14: Historical discount – Ambev vs. MSCI EM Staples – EV/EBITDA

Ambev's relative discount is higher than historical

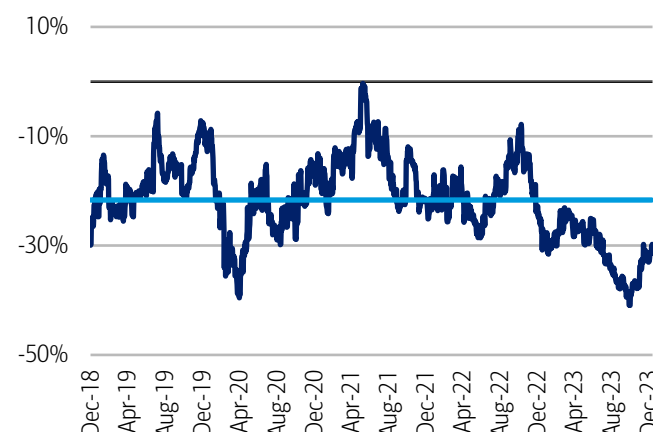


Source: Bloomberg

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Exhibit 15: Historical discount – Ambev vs. MSCI EM Staples – P/E

Ambev's relative discount is in line with historical



Source: Bloomberg

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Revising estimates reflecting IOC changes

We are revising our estimates for Ambev, mainly to account for changes on the rules of the interest-on-capital payments. We estimate effective tax rate in 2024 will be 9p.p. higher than we previously estimates, which drives a 11% downward revision of our EPS to R\$0.9, flattish YoY.

According to the Law 14.789/2023, regarding the basis to be considered on the interest-on-capital calculation, it determines that (among other things): 1) positive variations on shareholders' equity accounts that result from corporate reorganizations will not be considered; 2) while negative amounts considered in the comprehensive income account need to be included in the basis. We detailed the changes in the Exhibit below.

Exhibit 16: Ambev's theoretical IOC calculation based on 3Q23 balance sheet

We estimate changes to IOC legislation to lead to an increase on effective tax rate of 9p.p. in 2024

	3Q23	IOC basis Before 2024	IOC basis After 2024	Change
Shareholders' equity				
Social capital	58,178	58,178	58,178	
Capital reserves	55,507	55,507	55,507	
Legal reserve	4	4	4	
Income reserve	22,056	22,056	22,056	
Fiscal incentive reserve	14,847	14,847		
Accumulated earnings/losses	13,771	13,771	13,771	
Minorities	1,306			
Comprehensive income	(74,108)		(74,108)	
Total (R\$mn)	91,561	164,362	75,408	-54%
Long term interest rate		6.50%	6.50%	
Potential annual IOC payments (R\$mn)		10,684	4,902	-54%
Nominal tax rate		29.0%	29.0%	
Pre-tax income		18,636	18,636	
Taxable income		7,953	13,735	72.7%
Taxes		2,306	3,983	72.7%
Effective tax rate		12.4%	21.4%	9p.p.
Minorities		(477)	(477)	
Net Income		15,853	14,176	-10.6%

Source: Ambev, BofA Global Research estimates

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We do not perpetuate the interest-on-capital payment in our model and assume a long-term effective tax rate of 30%. We have previously discussed Ambev has alternatives to deal with higher taxes in order to keep the return to shareholders, which ultimately implies the company raises debt and return part of this additional cash to shareholders. ([AmBev: One answer to higher taxes: capital structure optimization 03 October 2023](#)).

Despite lower earnings, we raise our PO to R\$16/US\$3.2 from R\$15.5/US\$3 as we increase our target P/E for 2024 from 15.5x to 17x, which implies a discount to ABI and EM Staples in line with historical average. We also reduce our WACC to 12.6% in our 50% DCF /50% target multiple valuation from 13.4% as we reduce the risk free rate by 50bps given lower US rates and country risk in Brazil by 30bps 2.5%, in line with current.

Exhibit 17: Ambev Old vs. New estimates

Lowering EPS on higher effective tax rate

		2023E	2024E	2025E
Net Revenues (R\$m)	New Estimates	80,796	79,168	81,444
	Old Estimates	81,094	79,990	85,187
	Change	-0.4%	-1.0%	-4.4%
Adj. EBITDA (R\$m)	New Estimates	25,465	28,086	29,031
	Old Estimates	25,426	28,015	30,015
	Change	0.2%	0.3%	-3.3%
Adj. EBITDA Margin	New Estimates	31.5%	35.5%	35.6%
	Old Estimates	31.4%	35.0%	35.2%
	Change	0.16 pp	0.45 pp	0.41 pp
Net Income (R\$m)	New Estimates	14,551	14,215	14,973
	Old Estimates	14,187	15,840	16,168
	Change	2.6%	-10.3%	-7.4%
EPS (R\$/sh)	New Estimates	0.92	0.90	0.95
	Old Estimates	0.90	1.01	1.03
	Change	2.6%	-10.3%	-7.4%

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)

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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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 & Beverage Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Bimbo	GRBMF	BIMBOA 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
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
NEUTRAL				
	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
UNDERPERFORM				
	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	SLQJF	SLCE3 BZ	Isabella Simonato
	SQM	SQM	SQM US	Isabella Simonato

iQmethodSM 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

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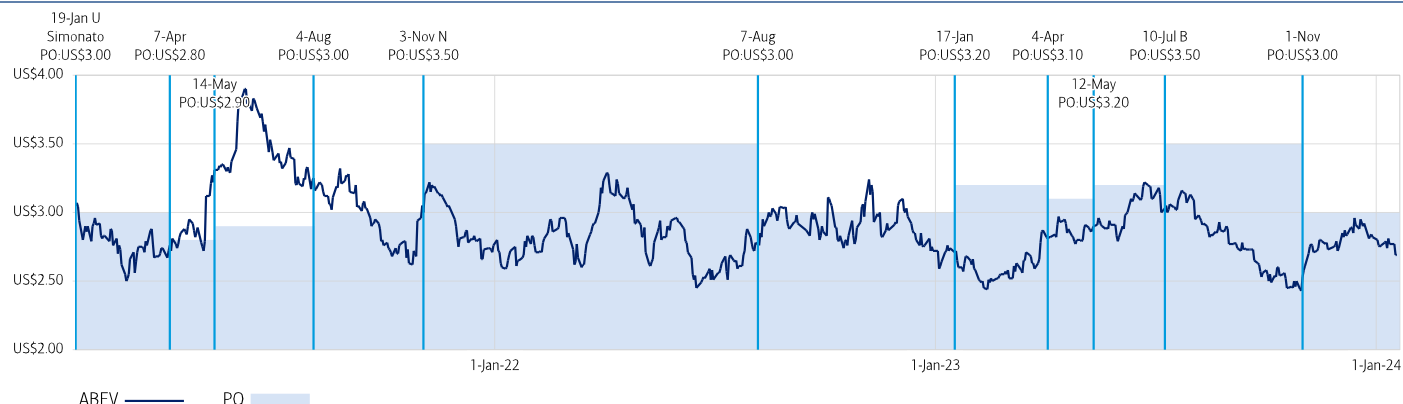
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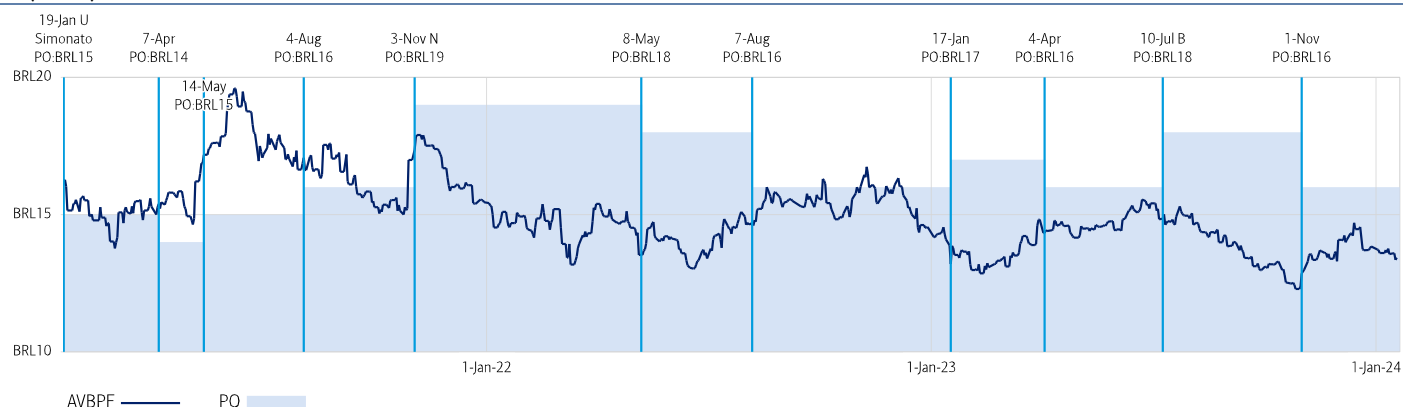
AmBev (ABEV) Price Chart



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

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AmBev (AVBPF) 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.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}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.

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