

Ambev

EPS Overhangs All-At-Once: The Playbook of Brazil Tax Voting and Argentine Peso Deval

With the Brazilian congress tax voting around the corner and Argentina announcing a relevant 54% devaluation of the peso, we do a recap of what is at stake for Ambev's EPS. All together, these effects could lead to a worst case scenario ~30% impact in EPS, which would drive 24E PE to increase to 19.3x from 13.5x. However, given a likely dilution of the tax collection proposals of the government in congress, we think the potential effect on net income should be in the range of 14-26%, implying a PE in the range of 15.5-18.2x. This is before any measures Ambev could take to minimize these impacts, which could ultimately reduce the cash impact of the tax benefits lost (potentially keeping cash taxes at current levels for a few more years), or generating extraordinary return to shareholders via dividends or buybacks. It is hard to argue that the worst is priced in or these developments should not have a negative impact on the stock. However, recent underperformance and the PE ranges mentioned above would still imply upside potential for the stock once more details on the tax front emerge and the overhangs are put behind. Also, operations should have a strong 2024E, in our view, with margins rebounding on good top-line performance and lowering costs. We remain OW.

- **Before running scenarios, a quick disclaimer.** The final text of the bill is yet unknown and changes can be implemented last minute by congressmen before voting. Our scenarios are based on the text proposed by the government to the congress. But even considering this text, several technicalities and lack of disclosure regarding ICMS subventions and shareholders equity account classifications may lead to inaccurate interpretation by our analysis.
- **IOC. 21.5% of EPS (7Y Median). We estimate a 34%-81% reduction in the benefit.** Congress special committee should vote this week the provisory measure MP 1185 that now deals with two relevant topics for Ambev: The deductibility of Interest on Capital (IOC) and tax subventions in the income tax calculation base. The final text to be voted is still unknown and should be presented by the end of the day today, with potential changes (likely dilutions) as it heads to plenary voting next week. We ran two scenarios (bull and bear) based on different IOC calculation bases, as per the initial text of the bill. In the Bear case we assume both equity accounts "goodwill" and "Accounting adjustments for transactions between shareholders" are removed from the calculation, leading to an 81% reduction in the tax benefit or 17% impact in net income (24E PE goes from 13.5x to 16.2x) or a NPV of R\$1.6/share. In the bull case, just the goodwill account is excluded. That leads to a 34% reduction in the tax benefit or 7% net income impact (24E PE goes from 13.5 to 14.5), an

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Equity Ratings and Price Targets

| Company | Ticker | Mkt Cap (\$ mn) | Price CCY | Price | Rating | | Price Target | | | |
|-----------|----------|--------------------|--------------|-------|--------|------|--------------|----------|------|----------|
| | | | | | Cur | Prev | Cur | End Date | Prev | End Date |
| AmBev | ABEV3 BZ | 45,466.50 | BRL | 14.27 | OW | n/c | 15.50 | Dec-24 | n/c | n/c |
| AmBev ADR | ABEV US | 44,840.69 | USD | 2.85 | OW | n/c | — | — | n/c | n/c |

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 12 Dec 23.

See page 16 for analyst certification and important disclosures, including non-US analyst disclosures.

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NPV impact of R\$0.6/share.

- **Subventions deductibility. ~5% of EPS.** Ambev has approximately R\$2.7-2.9bn/year in ICMS subventions deducting the income tax base which leads to approximately R\$855m reduction in payable income taxes (5.4% of the net income). The initial proposal for changing the deductibility of subventions also suggested federal taxes could be applied in the calculation of state level taxes. That same tax introduced limitations to the deductibility of those subventions originated by investments, among others. That said, considering a high number of amendments to the text will be considered before voting, and considering Ambev is not providing details on their agreements with the states regarding these credits, we are not providing scenarios the potential net income loss in this case, but think they should be limited to the numbers mentioned above
- **Argentine peso devaluation. Potential ~4% EPS impact (~9% in EBITDA).** Based on data and sensitivities provided in company's recent press releases, we estimate Argentina accounts for mid-teens % of Ambev's EBITDA and mid to high single digits in terms of net income. Net income is less representative than EBITDA as company pays higher taxes in Argentina than in Brazil and because hedging is expensive in the country, weighing on the financial income and tax lines. Assuming the peso at potential new levels of ps800-1000/usd, we estimate Ambev's EBITDA could fall by 8.5-9.75% from current base case levels of Ps350/usd and net income could fall by 3.5-4.0%. These estimates are based on annualized numbers, but considering company's hedging position in the peso, we think there could be one off charges in net income related to the write off of some receivable's value, and at the same time EBITDA impact would be softened given the hedging account
- **What are the levers to reduce the impact of the potential change in regulation?** Ambev will likely use a mix of tools to offset the cash impact of potentially higher income taxes. We think most of these tools should lead to a reduction in cash tax payments (cash flow impact), but not necessarily lower accounting tax declarations (i.e. net income diverting from cash net income). (1) We think Ambev can monetize ~R\$9-10bn federal tax credits in a period of 3-4 years. If that happens, cash tax payments could look the same for next few years, even assuming our worst case scenario. (2) An increase in tax rate should lead Ambev to search for a more adequate capital structure to minimize WACC and thus improve its EVA. Considering our bull/bear IOC scenarios mentioned above, we think the ideal capital structure should sit in the 1-2x ND/EBITDA range (see figures 4-5. That would imply Ambev would need to add R\$48-75bn in debt via extraordinary dividends or buybacks (we think M&A is unlikely). That said, they could be paying equivalent to extraordinary dividends of R\$3.1-4.8/share (not necessarily at once, but over the course of few years). (3) The company will also look for opportunities to improve its holding structure and eventually may find ways of minimizing profits in countries tax rate is higher than others
- **What is priced in? Likely a good chunk** Ambev shares are down 12% YTD, the same as MSCI Brazil Discretionary but below iBov +15%, BUD +12%. Since the Provisory Measure on the end of IOC was published Aug 31st, Ambev also underperformed peers, parent company and overall discretionary names by around 5-7%. On a PE forward basis, the stock is at 4% premium to MSCI Brazil discretionary names (against recent peaks of 40% premium in 1H23 and 10Y average of 24%).

Adj. EPS Estimate Changes

| | | | FY23E | | | FY24E | | |
|-----------|------------|-----|-------|------|---|-------|------|---|
| Company | BBG Ticker | CCY | Prev | Cur | Δ | Prev | Cur | Δ |
| AmBev | ABEV3 BZ | BRL | 0.95 | 0.95 | - | 1.04 | 1.04 | - |
| AmBev ADR | ABEV US | USD | 0.16 | 0.16 | - | 0.19 | 0.19 | - |

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

Offsetting EVA Impact by Leveraging Up Balance Sheet

Figure 4: Bull Case

| R\$m | 2024 Old | 2024 New | New vs Old |
|--|---------------|---------------|-------------|
| EBITDA | 30,184 | 30,184 | |
| ND/EBITDA | -0.5 | 1.06 | |
| ND | -16,424 | 31,995 | 48,418 |
| Cost of Debt | | 10.0% | |
| EBIT | 23,231 | 23,231 | |
| Net financial expenses (Debt related) | 282 | -3,199 | |
| Derivatives, lease, Hyper inflation/Others | -4,001 | -4,001 | |
| Equity income and Others | -214 | -214 | |
| (=) EBT | 19,298 | 15,817 | |
| (-) Tax Subsidies Removal from Calc. Base | -2,910 | -2,910 | |
| As % of Brazil Revenues | 5.9% | 5.9% | |
| (-) Other Adjustments to Tax Base | 24 | 24 | |
| As % of = EBT | 0.1% | 0.1% | |
| (=) Tax Base | 16,413 | 12,931 | |
| Tax Rate - Unadjusted | 29.5% | 29.5% | |
| (=) Nominal Tax Payable | -4,837 | -3,811 | |
| (+) IOC Tax Deduction | 3,420 | 2,271 | |
| (-) Other Adjustments | 29 | 29 | |
| (=) Effective Tax | -1,387 | -1,511 | |
| Tax rate | 7.2% | 9.6% | |
| Net Income | 17,911 | 14,306 | 25% |
| Current Market Cap | 224,705 | 224,705 | |
| P/E | 12.5 | 15.7 | |
| Net debt | -16,424 | 31,995 | |
| Equity | 85,110 | 36,691 | |
| Invested Capital | 68,686 | 68,686 | |
| EBIT*(1-t) | 21,561 | 21,012 | |
| ROIC | 31.4% | 30.6% | |
| Ke | 14.9% | 16.4% | |
| Kd Pre-Tax | 12.3% | 12.3% | |
| Kd Post-Tax | 11.4% | 11.1% | |
| D/Capital | 3.0% | 46.6% | |
| E/Capital | 97.0% | 53.4% | |
| WACC | 14.8% | 13.9% | |
| ROIC - WACC | 16.6% | 16.7% | 0.0% |
| COST OF EQUITY | | | |
| US Risk Free Rate (10-year Treasury) | 3.4% | 3.4% | |
| Country Risk (Spread over Treasury) | 5.0% | 5.0% | |
| Equity Market Risk Premium | 5.5% | 5.5% | |
| Equity Beta | 0.72 | 0.99 | |
| LT BRL depreciation | 2.5% | 2.5% | |
| Ke | 14.9% | 16.4% | |
| International Comparables Unlevered Beta | 0.70 | 0.70 | |
| Taxes (Income Tax + Employees) | 7% | 10% | |
| Beta | 0.72 | 0.99 | |

Source: J.P. Morgan estimates.

Figure 5: Bear Case

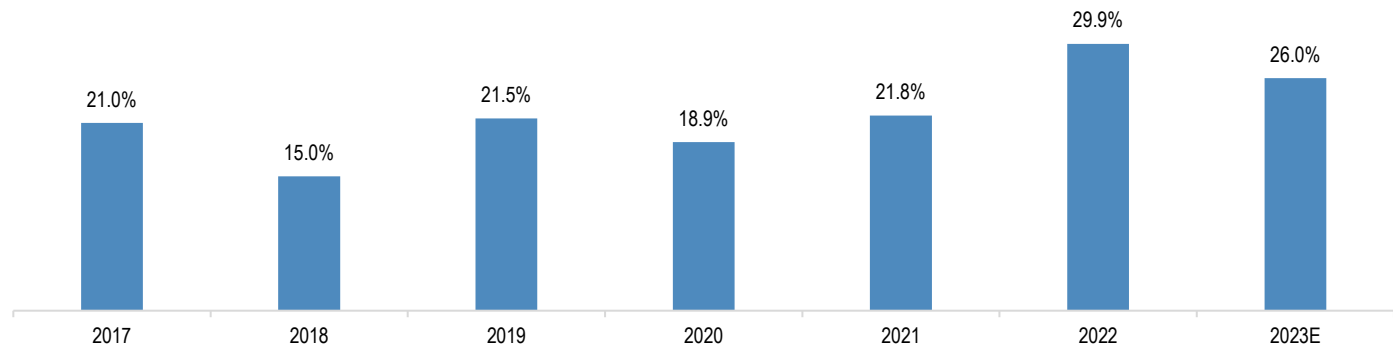
| R\$m | 2024 Old | 2024 New | New vs Old |
|--|---------------|---------------|-------------|
| EBITDA | 30,184 | 30,184 | |
| ND/EBITDA | -0.5 | 1.94 | |
| ND | -16,424 | 58,556 | 74,980 |
| Cost of Debt | | 10.0% | |
| EBIT | 23,231 | 23,231 | |
| Net financial expenses (Debt related) | 282 | -5,856 | |
| Derivatives, lease, Hyper inflation/Others | -4,001 | -4,001 | |
| Equity income and Others | -214 | -214 | |
| (=) EBT | 19,298 | 13,161 | |
| (-) Tax Subsidies Removal from Calc. Base | -2,910 | -2,910 | |
| As % of Brazil Revenues | 5.9% | 5.9% | |
| (-) Other Adjustments to Tax Base | 24 | 24 | |
| As % of = EBT | 0.1% | 0.1% | |
| (=) Tax Base | 16,413 | 10,275 | |
| Tax Rate - Unadjusted | 29.5% | 29.5% | |
| (=) Nominal Tax Payable | -4,837 | -3,028 | |
| (+) IOC Tax Deduction | 3,420 | 655 | |
| (-) Other Adjustments | 29 | 29 | |
| (=) Effective Tax | -1,387 | -2,344 | |
| Tax rate | 7.2% | 17.8% | |
| Net Income | 17,911 | 10,817 | 66% |
| Current Market Cap | 224,705 | 224,705 | |
| P/E | 12.5 | 20.8 | |
| Net debt | -16,424 | 58,556 | |
| Equity | 85,110 | 10,130 | |
| Invested Capital | 68,686 | 68,686 | |
| EBIT*(1-t) | 21,561 | 19,093 | |
| ROIC | 31.4% | 27.8% | |
| Ke | 14.9% | 17.4% | |
| Kd Pre-Tax | 12.3% | 12.3% | |
| Kd Post-Tax | 11.4% | 10.1% | |
| D/Capital | 3.0% | 85.3% | |
| E/Capital | 97.0% | 14.7% | |
| WACC | 14.8% | 11.2% | |
| ROIC - WACC | 16.6% | 16.6% | 0.0% |
| COST OF EQUITY | | | |
| US Risk Free Rate (10-year Treasury) | 3.4% | 3.4% | |
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| LT BRL depreciation | 2.5% | 2.5% | |
| Ke | 14.9% | 17.4% | |
| International Comparables Unlevered Beta | 0.70 | 0.70 | |
| Taxes (Income Tax + Employees) | 7% | 18% | |
| Beta | 0.72 | 1.19 | |

Source: J.P. Morgan estimates.

IoC Tax Benefit as % of Net Income

Figure 6: IoC Tax Benefit as % of Net Income

%



Source: Company reports, J.P. Morgan estimates.

Overweight

ABEV3.SA, ABEV3 BZ

Price (12 Dec 23):R\$14.27

Price Target (Dec-24):R\$15.50

AmBev

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Quarterly Forecasts (FYE Dec)

| Adj. EPS (R\$) | 2022A | 2023E | 2024E |
|----------------|-------|-------|-------|
| Q1 | 0.22 | 0.24A | 0.26 |
| Q2 | 0.11 | 0.17A | 0.20 |
| Q3 | 0.20 | 0.25A | 0.25 |
| Q4 | 0.32 | 0.29 | 0.34 |
| FY | 0.85 | 0.95 | 1.04 |

Style Exposure

| Quant Factors | Current | Hist %Rank (1=Top) | | | |
|---------------|---------|--------------------|----|----|----|
| | %Rank | 6M | 1Y | 3Y | 5Y |
| Value | 69 | 74 | 88 | 74 | 75 |
| Growth | 22 | 49 | 33 | 16 | 68 |
| Momentum | 67 | 46 | 19 | 73 | 89 |
| Quality | 12 | 29 | 21 | 8 | 28 |
| Low Vol | 3 | 4 | 6 | 14 | 2 |
| ESGQ | 34 | 1 | 1 | 1 | 1 |

Price Performance



| | YTD | 1m | 3m | 12m |
|-----|--------|------|-------|--------|
| Abs | 0.6% | 6.9% | 4.1% | -6.4% |
| Rel | -14.6% | 2.1% | -3.1% | -26.4% |

Company Data

| | |
|----------------------------|-------------|
| Shares O/S (mn) | 15,734 |
| 52-week range (R\$) | 15.78-12.28 |
| Market cap (\$ mn) | 45,466.50 |
| Exchange rate | 4.94 |
| Free float(%) | 28.0% |
| 3M - Avg daily vol (mn) | 24.54 |
| 3M - Avg daily val (\$ mn) | 66.0 |
| Volatility (90 Day) | 20 |
| Index | Ibovespa |
| BBG BUY HOLD SELL | 13 4 1 |

Key Metrics (FYE Dec)

| R\$ in millions | FY22A | FY23E | FY24E | FY25E |
|-----------------------------|--------|--------|--------|--------|
| Financial Estimates | | | | |
| Revenue | 79,709 | 83,277 | 88,611 | 93,820 |
| Adj. EBITDA | 22,849 | 26,754 | 30,184 | 32,347 |
| Adj. EBIT | 16,909 | 20,156 | 23,231 | 24,980 |
| Adj. net income | 13,367 | 14,899 | 16,370 | 17,313 |
| Adj. EPS | 0.85 | 0.95 | 1.04 | 1.10 |
| BBG EPS | 0.85 | 0.93 | 1.00 | 1.06 |
| Cashflow from operations | 19,483 | 22,483 | 23,827 | 25,163 |
| FCFF | 16,497 | 20,581 | 20,389 | 20,666 |
| Margins and Growth | | | | |
| Revenue Growth Y/Y (%) | 9.4% | 4.5% | 6.4% | 5.9% |
| Same Store Sales Growth (%) | - | - | - | - |
| Gross margin | 49.3% | 51.0% | 52.8% | 53.2% |
| EBITDA margin | 28.7% | 32.1% | 34.1% | 34.5% |
| EBITDA Growth Y/Y (%) | 6.5% | 17.1% | 12.8% | 7.2% |
| EBIT margin | 21.2% | 24.2% | 26.2% | 26.6% |
| Net margin | 16.8% | 17.9% | 18.5% | 18.5% |
| Adj. EPS growth | 16.6% | 11.4% | 9.9% | 5.8% |
| Ratios | | | | |
| Net debt/EBITDA | NM | NM | NM | NM |
| ROIC | - | - | - | - |
| ROE | 16.2% | 18.3% | 19.9% | 20.2% |
| Valuation | | | | |
| FCFF yield | 7.3% | 9.2% | 9.1% | 9.2% |
| Dividend yield | 5.4% | 5.4% | 5.8% | 5.9% |
| EV/Revenue | 2.3 | 2.2 | 2.0 | 1.8 |
| EV/EBITDA | 8.0 | 6.8 | 5.9 | 5.4 |
| Adj. P/E | 16.8 | 15.1 | 13.7 | 13.0 |

Summary Investment Thesis and Valuation

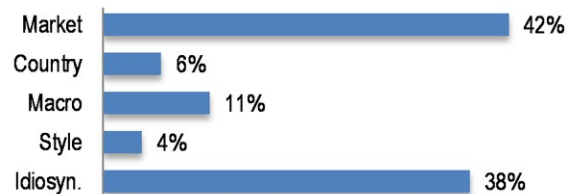
Investment Thesis

Ambev has been able to restore part of the market share losses of the past couple years with a continuous focus on innovation and good execution. The industry is seeing quite low price elasticity of demand, with the company able to increase prices without sacrificing much on volumes. This is all being supported by materializing demand. We believe the recent respite in commodity prices is the missing piece to this puzzle and should allow the company to experience a margin turnaround for the better. We rate the stock OW and see it trading at a discount to its historical P/E.

Valuation

Our Dec 2024 price target is derived from a 50/50 combination of a 15x 2025E P/E target and a 10Y DCF and 16% (BRL nominal) WACC, given increased rates. For our 25E P/E target methodology, we assume 15x fair value, which implies 2024E at 16.0x, below the historical average of 21x.

Performance Drivers



| Factors | 6M Corr | 1Y Corr |
|------------------------------|---------|---------|
| Market: MSCI EM Latam | 0.68 | 0.61 |
| Country: Brazil | 0.16 | 0.31 |
| Macro: | | |
| US 10 Year Yield | -0.38 | -0.30 |
| JP Morgan EMBI Global Spread | 0.04 | 0.26 |
| Generic 1st 'CO' Future | -0.42 | -0.22 |
| Quant Styles: | | |
| DivYld | -0.30 | -0.36 |
| Quality | -0.20 | -0.28 |
| Size | -0.38 | -0.28 |

Investment Thesis, Valuation and Risks

AmBev (*Overweight; Price Target: R\$15.50*)

Investment Thesis

Ambev has been able to restore part of the market share losses of the past couple years with a continuous focus on innovation and good execution. The industry is seeing quite low price elasticity of demand, with the company able to increase prices without sacrificing much on volumes. This is all being supported by materializing demand. We believe the recent respite in commodity prices is the missing piece to this puzzle, and should allow the company to experience a margin turnaround for the better. We rate the stock OW and see it trading at a discount to its historical P/E.

Valuation

Our Dec 2024 price target is derived from a 50/50 combination of a 15x 2025E P/E target and a 10Y DCF and 16% (BRL nominal) WACC, given increased rates. For our 25E P/E target methodology, we assume 15x fair value, which implies 2024E at 16.0x, below the historical average of 21x.

Risks to Rating and Price Target

- The ongoing reopening of the economy could be slower than expected, implying worse-than-expected sales volumes.
- Competition has been fierce in the beer industry in Latam, but this scenario could improve or deteriorate depending on the strategy of other players, decreasing prices for Ambev.
- Prices of relevant raw materials such as aluminum, sugar, and PET could increase, leading to worse-than-expected margins.
- Consumer income could surprise to the downside since unemployment remains elevated and inflation is high in most countries where Ambev operates, leading to a compression of available income.
- Innovation strategy could fail or competition could be stronger than anticipated, leading to market share losses.

AmBev: Summary of Financials

| Income Statement - Annual | | | | | | Income Statement - Quarterly | | | | | |
|-------------------------------------|----------|----------|----------|----------|----------|------------------------------|----------|----------|----------|---------|--------|
| | FY21A | FY22A | FY23E | FY24E | FY25E | | 1Q23A | 2Q23A | 3Q23A | 4Q23E | |
| Revenue | 72,854 | 79,709 | 83,277 | 88,611 | 93,820 | Revenue | 20,532A | 18,898A | 20,318A | 23,529 | |
| COGS | (30,463) | (34,482) | (34,238) | (34,865) | (36,513) | COGS | (9,267)A | (8,715)A | (9,216)A | (9,150) | |
| Gross profit | 37,195 | 39,287 | 42,441 | 46,793 | 49,939 | Gross profit | 10,400A | 9,263A | 10,095A | 12,684 | |
| SG&A | (21,846) | (23,969) | (24,126) | (25,495) | (26,979) | SG&A | (5,301)A | (5,305)A | (4,992)A | (6,418) | |
| Adj. EBITDA | 21,451 | 22,849 | 26,754 | 30,184 | 32,347 | Adj. EBITDA | 6,444A | 5,275A | 6,585A | 8,449 | |
| D&A | (5,197) | (5,940) | (6,597) | (6,953) | (7,367) | D&A | (1,527)A | (1,704)A | (1,672)A | (1,695) | |
| Adj. EBIT | 16,254 | 16,909 | 20,156 | 23,231 | 24,980 | Adj. EBIT | 4,918A | 3,571A | 4,913A | 6,755 | |
| Net Interest | (3,590) | (3,735) | (4,132) | (3,719) | (3,121) | Net Interest | (998)A | (1,074)A | (838)A | (1,223) | |
| Adj. PBT | 12,155 | 13,002 | 15,824 | 19,298 | 21,633 | Adj. PBT | 3,878A | 2,372A | 4,060A | 5,514 | |
| Tax | (637) | 656 | (686) | (2,656) | (4,031) | Tax | (58)A | 226A | (45)A | (809) | |
| Minority Interest | (452) | (433) | (426) | (471) | (500) | Minority Interest | (120)A | (95)A | (103)A | (108) | |
| Adj. Net Income | 11,460 | 13,367 | 14,899 | 16,370 | 17,313 | Adj. Net Income | 3,727A | 2,626A | 3,928A | 4,617 | |
| Reported EPS | 0.70 | 0.84 | 0.93 | 1.03 | 1.09 | Reported EPS | 0.24A | 0.16A | 0.25A | 0.29 | |
| Adj. EPS | 0.73 | 0.85 | 0.95 | 1.04 | 1.10 | Adj. EPS | 0.24A | 0.17A | 0.25A | 0.29 | |
| DPS | 0.71 | 0.78 | 0.77 | 0.83 | 0.85 | DPS | 0.00A | 0.00A | 0.00A | 0.00 | |
| Payout ratio | 100.4% | 92.6% | 82.9% | 80.8% | 78.0% | Payout ratio | 0.0%A | 0.0%A | 0.0%A | 0.0% | |
| Shares outstanding | 15,737 | 15,742 | 15,747 | 15,747 | 15,747 | Shares outstanding | 15,742A | 15,747A | 15,747A | 15,747 | |
| Balance Sheet & Cash Flow Statement | | | | | | Ratio Analysis | | | | | |
| | FY21A | FY22A | FY23E | FY24E | FY25E | | FY21A | FY22A | FY23E | FY24E | FY25E |
| Cash and cash equivalents | 17,225 | 14,926 | 15,802 | 19,914 | 24,705 | Gross margin | 51.1% | 49.3% | 51.0% | 52.8% | 53.2% |
| Accounts receivable | 4,792 | 5,349 | 5,675 | 6,030 | 6,384 | EBITDA margin | 29.4% | 28.7% | 32.1% | 34.1% | 34.5% |
| Inventories | 11,000 | 12,923 | 3,088 | 3,402 | 3,729 | EBIT margin | 22.3% | 21.2% | 24.2% | 26.2% | 26.6% |
| Other current assets | 5,610 | 3,308 | 13,755 | 14,674 | 15,595 | Net profit margin | 15.7% | 16.8% | 17.9% | 18.5% | 18.5% |
| Current assets | 38,627 | 36,507 | 38,320 | 44,021 | 50,413 | ROE | 14.6% | 16.2% | 18.3% | 19.9% | 20.2% |
| PP&E | 29,224 | 30,056 | 29,078 | 29,008 | 28,440 | ROA | 8.7% | 9.7% | 10.8% | 11.6% | 11.7% |
| LT investments | 193 | 219 | 244 | 244 | 244 | ROCE | 18.7% | 18.7% | 22.7% | 23.3% | 22.8% |
| Other non current assets | 70,558 | 71,177 | 71,193 | 71,193 | 71,193 | SG&A/Sales | 30.0% | 30.1% | 29.0% | 28.8% | 28.8% |
| Total assets | 138,603 | 137,958 | 138,834 | 144,465 | 150,290 | Net debt/equity | NM | NM | NM | NM | NM |
| Short term borrowings | 847 | 983 | 1,236 | 1,236 | 1,236 | P/E (x) | 19.6 | 16.8 | 15.1 | 13.7 | 13.0 |
| Payables | 25,078 | 24,329 | 25,225 | 26,683 | 28,120 | P/BV (x) | 2.7 | 2.7 | 2.8 | 2.7 | 2.6 |
| Other short term liabilities | 12,942 | 15,229 | 16,160 | 16,509 | 16,852 | EV/EBITDA (x) | 8.3 | 8.0 | 6.8 | 5.9 | 5.4 |
| Current liabilities | 38,867 | 40,541 | 42,621 | 44,427 | 46,207 | Dividend Yield | 4.9% | 5.4% | 5.4% | 5.8% | 5.9% |
| Long-term debt | 2,253 | 2,788 | 2,482 | 2,482 | 2,482 | Sales/Assets (x) | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Other long term liabilities | 13,465 | 11,302 | 10,025 | 10,025 | 10,025 | Interest cover (x) | 6.0 | 6.1 | 6.5 | 8.1 | 10.4 |
| Total liabilities | 54,585 | 54,630 | 55,128 | 56,935 | 58,715 | Operating leverage | (4.2%) | 42.8% | 429.1% | 238.1% | 128.1% |
| Shareholders' equity | 82,643 | 81,956 | 80,465 | 83,819 | 87,363 | Revenue y/y Growth | 24.8% | 9.4% | 4.5% | 6.4% | 5.9% |
| Minority interests | 1,375 | 1,372 | 3,241 | 3,712 | 4,212 | EBITDA y/y Growth | (9.5%) | 6.5% | 17.1% | 12.8% | 7.2% |
| Total liabilities & equity | 138,603 | 137,958 | 138,834 | 144,465 | 150,290 | Tax rate | 5.2% | 5.0% | 4.3% | 13.8% | 18.6% |
| BVPS | 5.25 | 5.21 | 5.11 | 5.32 | 5.55 | Adj. Net Income y/y Growth | (3.1%) | 16.6% | 11.5% | 9.9% | 5.8% |
| y/y Growth | 11.9% | (0.9%) | (1.9%) | 4.2% | 4.2% | EPS y/y Growth | (3.2%) | 16.6% | 11.4% | 9.9% | 5.8% |
| Net debt/(cash) | (14,125) | (11,156) | (12,084) | (16,197) | (20,987) | DPS y/y Growth | 62.2% | 10.1% | (0.4%) | 7.2% | 2.0% |
| Cash flow from operating activities | 20,144 | 19,483 | 22,483 | 23,827 | 25,163 | | | | | | |
| o/w Depreciation & amortization | 5,197 | 5,940 | 6,597 | 6,953 | 7,367 | | | | | | |
| o/w Changes in working capital | 3,808 | (143) | 735 | 218 | 178 | | | | | | |
| Cash flow from investing activities | (7,677) | (6,533) | (5,856) | (6,646) | (7,036) | | | | | | |
| o/w Capital expenditure | (7,677) | (6,533) | (5,856) | (6,646) | (7,036) | | | | | | |
| as % of sales | 10.5% | 8.2% | 7.0% | 7.5% | 7.5% | | | | | | |
| Cash flow from financing activities | (12,807) | (11,572) | (12,249) | (13,069) | (13,336) | | | | | | |
| o/w Dividends paid | (11,115) | (12,242) | (12,196) | (13,069) | (13,336) | | | | | | |
| o/w Net debt issued/(repaid) | (1,692) | 670 | (53) | 0 | 0 | | | | | | |
| Net change in cash | (340) | 1,378 | 4,378 | 4,112 | 4,791 | | | | | | |
| Adj. Free cash flow to firm | 15,869 | 16,497 | 20,581 | 20,389 | 20,666 | | | | | | |
| y/y Growth | 22.7% | 4.0% | 24.8% | (0.9%) | 1.4% | | | | | | |

Source: Company reports and J.P. Morgan estimates.

Note: R\$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

Overweight

ABEV, ABEV US

Price (12 Dec 23):\$2.85

AmBev ADR

LatAm Food & Beverages and Agribusiness

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Bloomberg JPMA FERREIRA <GO>

Banco J.P. Morgan S.A.

Quarterly Forecasts (FYE Dec)

Adj. EPS (\$)

| | 2022A | 2023E | 2024E |
|----|-------|-------|-------|
| Q1 | 0.04 | 0.04A | 0.05 |
| Q2 | 0.02 | 0.03A | 0.04 |
| Q3 | 0.04 | 0.04A | 0.05 |
| Q4 | 0.06 | 0.05 | 0.06 |
| FY | 0.16 | 0.16 | 0.19 |

Style Exposure

| Quant Factors | Current | Hist %Rank (1=Top) | | | |
|---------------|---------|--------------------|----|----|----|
| | %Rank | 6M | 1Y | 3Y | 5Y |
| Value | 70 | 79 | 91 | 75 | 76 |
| Growth | 61 | 44 | 13 | 44 | 73 |
| Momentum | 61 | 25 | 34 | 79 | 95 |
| Quality | 34 | 20 | 6 | 18 | 26 |
| Low Vol | 21 | 24 | 26 | 55 | 13 |

Price Performance



| | YTD | 1m | 3m | 12m |
|-----|--------|-------|-------|--------|
| Abs | 4.8% | 4.8% | 4.4% | -0.7% |
| Rel | -10.4% | -0.1% | -2.8% | -20.7% |

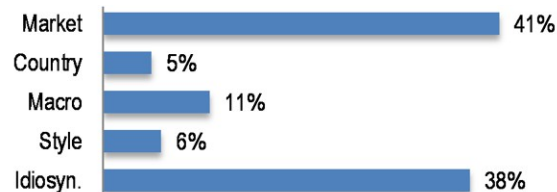
Company Data

| | |
|----------------------------|-----------|
| Shares O/S (mn) | 15,734 |
| 52-week range (\$) | 3.23-2.40 |
| Market cap (\$ mn) | 44,840.69 |
| Exchange rate | 1.00 |
| Free float(%) | - |
| 3M - Avg daily vol (mn) | 12.37 |
| 3M - Avg daily val (\$ mn) | 32.8 |
| Volatility (90 Day) | 25 |
| Index | Ibovespa |
| BBG BUY HOLD SELL | 8 2 1 |

Key Metrics (FYE Dec)

| \$ in millions | FY22A | FY23E | FY24E | FY25E |
|-----------------------------|--------|--------|--------|--------|
| Financial Estimates | | | | |
| Revenue | 15,499 | 16,128 | 16,873 | 17,518 |
| Adj. EBITDA | 4,376 | 4,800 | 5,428 | 5,718 |
| Adj. EBIT | 3,214 | 3,564 | 4,143 | 4,390 |
| Adj. net income | 2,582 | 2,572 | 2,994 | 3,063 |
| Adj. EPS | 0.16 | 0.16 | 0.19 | 0.19 |
| BBG EPS | 0.85 | 0.93 | 1.00 | 1.06 |
| Cashflow from operations | 3,706 | 3,902 | 4,429 | 4,541 |
| FCFF | 3,125 | 3,269 | 3,164 | 3,227 |
| Margins and Growth | | | | |
| Revenue Growth Y/Y (%) | 14.9% | 4.1% | 4.6% | 3.8% |
| Same Store Sales Growth (%) | - | - | - | - |
| Gross margin | 49.6% | 49.3% | 50.8% | 51.5% |
| EBITDA margin | 28.2% | 29.8% | 32.2% | 32.6% |
| EBITDA Growth Y/Y (%) | 10.1% | 9.7% | 13.1% | 5.3% |
| EBIT margin | 20.7% | 22.1% | 24.6% | 25.1% |
| Net margin | 16.7% | 15.9% | 17.7% | 17.5% |
| Adj. EPS growth | 21.6% | (0.4%) | 16.4% | 2.3% |
| Ratios | | | | |
| Net debt/EBITDA | NM | NM | NM | NM |
| ROIC | - | - | - | - |
| ROE | 17.0% | 16.5% | 19.2% | 19.6% |
| Valuation | | | | |
| FCFF yield | 7.0% | 7.3% | 7.1% | 7.2% |
| Dividend yield | 5.3% | 5.2% | 5.6% | 6.1% |
| EV/Revenue | 2.7 | 2.5 | 2.4 | 2.3 |
| EV/EBITDA | 9.5 | 8.4 | 7.5 | 6.9 |
| Adj. P/E | 17.4 | 17.4 | 15.0 | 14.6 |

Performance Drivers



| Factors | 6M Corr | 1Y Corr |
|------------------------------|---------|---------|
| Market: MSCI EM Latam | 0.69 | 0.62 |
| Country: Brazil | 0.15 | 0.30 |
| Macro: | | |
| US 10 Year Yield | -0.32 | -0.28 |
| Emerging Central Bank Rate | 0.22 | 0.21 |
| JP Morgan EMBI Global Spread | -0.02 | 0.21 |
| Quant Styles: | | |
| DivYld | -0.35 | -0.40 |
| Size | -0.35 | -0.30 |
| Quality | -0.17 | -0.27 |

AmBev ADR: Summary of Financials

| Income Statement - Annual | | | | | | Income Statement - Quarterly | | | | | |
|-------------------------------------|----------|-----------|-------------|---------------|-----------------|------------------------------|----------|----------|----------|---------|--------|
| | FY21A | FY22A | FY23E | FY24E | FY25E | | 1Q23A | 2Q23A | 3Q23A | 4Q23E | |
| Revenue | 13,493 | 15,499 | 16,128 | 16,873 | 17,518 | Revenue | 3,836A | 3,602A | 4,151A | 4,539 | |
| COGS | (5,642) | (6,746) | (6,936) | (7,014) | (7,173) | COGS | (1,722)A | (1,573)A | (1,801)A | (1,841) | |
| Gross profit | 6,889 | 7,686 | 7,956 | 8,574 | 9,018 | Gross profit | 1,840A | 1,721A | 2,020A | 2,374 | |
| SG&A | (4,046) | (4,689) | (4,726) | (4,783) | (4,957) | SG&A | (1,062)A | (1,120)A | (1,234)A | (1,310) | |
| Adj. EBITDA | 3,973 | 4,376 | 4,800 | 5,428 | 5,718 | Adj. EBITDA | 1,136A | 975A | 1,197A | 1,493 | |
| D&A | (962) | (1,162) | (1,236) | (1,285) | (1,327) | D&A | (274)A | (308)A | (330)A | (324) | |
| Adj. EBIT | 3,010 | 3,214 | 3,564 | 4,143 | 4,390 | Adj. EBIT | 862A | 668A | 866A | 1,169 | |
| Net Interest | (665) | (731) | (729) | - | - | Net Interest | (121)A | (142)A | (139)A | (328) | |
| Adj. PBT | 2,251 | 2,449 | 2,801 | 3,566 | 3,875 | Adj. PBT | 733A | 518A | 718A | 832 | |
| Tax | (118) | 128 | (169) | (498) | (737) | Tax | (59)A | 18A | (41)A | (86) | |
| Minority Interest | (84) | (85) | (89) | (104) | (106) | Minority Interest | (22)A | (28)A | (22)A | (17) | |
| Adj. Net Income | 2,122 | 2,582 | 2,572 | 2,994 | 3,063 | Adj. Net Income | 659A | 515A | 662A | 736 | |
| Reported EPS | 0.13 | 0.16 | 0.16 | 0.19 | 0.19 | Reported EPS | 0.04A | 0.03A | 0.04A | 0.05 | |
| Adj. EPS | 0.13 | 0.16 | 0.16 | 0.19 | 0.19 | Adj. EPS | 0.04A | 0.03A | 0.04A | 0.05 | |
| DPS | 0.13 | 0.15 | 0.15 | 0.16 | 0.17 | DPS | 0.00A | 0.00A | 0.00A | 0.00 | |
| Payout ratio | 100.4% | 93.8% | 91.5% | 84.2% | 89.7% | Payout ratio | 0.0%A | 0.0%A | 0.0%A | 0.0% | |
| Shares outstanding | 15,737 | 15,742 | 15,742 | 15,742 | 15,742 | Shares outstanding | 15,742A | 15,742A | 15,742A | 15,742 | |
| Balance Sheet & Cash Flow Statement | | | | | | Ratio Analysis | | | | | |
| | FY21A | FY22A | FY23E | FY24E | FY25E | | FY21A | FY22A | FY23E | FY24E | FY25E |
| Cash and cash equivalents | 3,092 | 2,816 | 3,712 | 3,686 | 4,709 | Gross margin | 51.1% | 49.6% | 49.3% | 50.8% | 51.5% |
| Accounts receivable | 860 | 1,009 | 1,095 | 1,162 | 1,223 | EBITDA margin | 29.4% | 28.2% | 29.8% | 32.2% | 32.6% |
| Inventories | 1,974 | 2,438 | 596 | 655 | 714 | EBIT margin | 22.3% | 20.7% | 22.1% | 24.6% | 25.1% |
| Other current assets | 1,007 | 871 | 2,695 | 2,867 | 3,026 | Net profit margin | 15.7% | 16.7% | 15.9% | 17.7% | 17.5% |
| Current assets | 6,933 | 7,135 | 8,098 | 8,370 | 9,671 | ROE | 14.6% | 17.0% | 16.5% | 19.2% | 19.6% |
| PP&E | 5,245 | 5,671 | 5,707 | 5,629 | 5,428 | ROA | 8.7% | 10.1% | 9.7% | 11.1% | 11.2% |
| LT investments | 35 | 41 | 41 | 41 | 40 | ROCE | 18.7% | 19.3% | 20.5% | 21.9% | 21.8% |
| Other non current assets | 12,664 | 13,182 | 13,182 | 12,944 | 12,612 | SG&A/Sales | 30.0% | 30.3% | 29.3% | 28.3% | 28.3% |
| Total assets | 24,877 | 26,030 | 27,029 | 26,983 | 27,751 | Net debt/equity | NM | NM | NM | NM | NM |
| Short term borrowings | 152 | 185 | 185 | 182 | 177 | P/E (x) | 21.1 | 17.4 | 17.4 | 15.0 | 14.6 |
| Payables | 4,501 | 4,590 | 4,866 | 5,140 | 5,386 | P/BV (x) | - | - | - | - | - |
| Other short term liabilities | 2,323 | 2,873 | 2,939 | 2,973 | 2,987 | EV/EBITDA (x) | 8.9 | 9.5 | 8.4 | 7.5 | 6.9 |
| Current liabilities | 6,976 | 7,649 | 7,991 | 8,294 | 8,550 | Dividend Yield | 4.6% | 5.3% | 5.2% | 5.6% | 6.1% |
| Long-term debt | 404 | 526 | 526 | 517 | 503 | Sales/Assets (x) | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Other long term liabilities | 2,417 | 2,132 | 2,132 | 2,094 | 2,040 | Interest cover (x) | 6.0 | 6.0 | 6.6 | - | - |
| Total liabilities | 9,797 | 10,308 | 10,649 | 10,905 | 11,093 | Operating leverage | (25.0%) | 45.4% | 269.1% | 351.7% | 155.9% |
| Shareholders' equity | 14,833 | 15,463 | 15,759 | 15,366 | 15,857 | Revenue y/y Growth | 19.3% | 14.9% | 4.1% | 4.6% | 3.8% |
| Minority interests | 247 | 259 | 620 | 713 | 801 | EBITDA y/y Growth | (12.9%) | 10.1% | 9.7% | 13.1% | 5.3% |
| Total liabilities & equity | 24,878 | 26,030 | 27,029 | 26,983 | 27,751 | Tax rate | 5.2% | 5.2% | 6.0% | 14.0% | 19.0% |
| BVPS | - | - | - | - | - | Adj. Net Income y/y Growth | (5.2%) | 21.6% | (0.4%) | 16.4% | 2.3% |
| y/y Growth | - | - | - | - | - | EPS y/y Growth | (5.2%) | 21.6% | (0.4%) | 16.4% | 2.3% |
| Net debt/(cash) | (2,535) | (2,105) | (3,001) | (2,987) | (4,028) | DPS y/y Growth | 55.0% | 16.3% | (2.9%) | 7.3% | 8.9% |
| Cash flow from operating activities | 74,865 | 3,706 | 3,902 | 4,429 | 4,541 | | | | | | |
| o/w Depreciation & amortization | 34,877 | 1,157 | 1,236 | 1,285 | 1,327 | | | | | | |
| o/w Changes in working capital | 35,584 | (49) | 28 | 71 | 70 | | | | | | |
| Cash flow from investing activities | (21,200) | (1,274) | (1,317) | (1,265) | (1,314) | | | | | | |
| o/w Capital expenditure | (21,200) | (1,274) | (1,317) | (1,265) | (1,314) | | | | | | |
| as % of sales | 157.1% | 8.2% | 8.2% | 7.5% | 7.5% | | | | | | |
| Cash flow from financing activities | (36,626) | (2,391) | (2,326) | (2,497) | (2,719) | | | | | | |
| o/w Dividends paid | (36,626) | (2,327) | (2,326) | (2,497) | (2,719) | | | | | | |
| o/w Net debt issued/(repaid) | - | (64) | 0 | 0 | 0 | | | | | | |
| Net change in cash | 8,294 | (233,038) | (6,202,572) | (165,055,348) | (4,392,108,391) | | | | | | |
| Adj. Free cash flow to firm | 54,295 | 3,125 | 3,269 | 3,164 | 3,227 | | | | | | |
| y/y Growth | 2083.4% | (94.2%) | 4.6% | (3.2%) | 2.0% | | | | | | |

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

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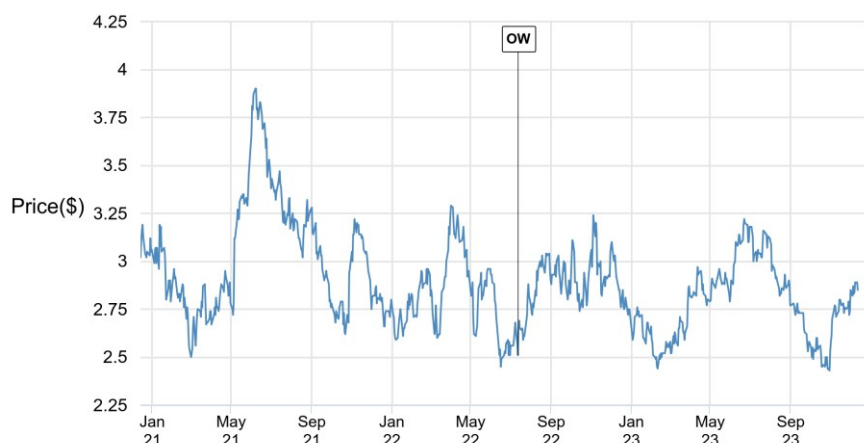
AmBev (ABEV3.SA, ABEV3 BZ) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 12, 2009. All share prices are as of market close on the previous business day.

| Date | Rating | Price (R\$) | Price Target (R\$) |
|-----------|--------|-------------|--------------------|
| 25-Feb-21 | N | 14.68 | 15 |
| 08-Apr-21 | N | 15.22 | 15.5 |
| 06-May-21 | N | 14.86 | 16.5 |
| 06-Jul-21 | N | 17.94 | 19 |
| 02-Aug-21 | N | 16.64 | 18.5 |
| 28-Oct-21 | N | 15.22 | 19 |
| 17-Jan-22 | N | 15.10 | 18 |
| 11-Mar-22 | N | 13.38 | 15.5 |
| 19-Apr-22 | N | 14.71 | 15 |
| 13-Jul-22 | OW | 13.79 | 17 |
| 02-Aug-22 | OW | 14.63 | 17.5 |
| 27-Oct-22 | OW | 15.10 | 18 |
| 11-Jan-23 | OW | 14.54 | 16.5 |
| 02-Mar-23 | OW | 13.47 | 16 |
| 11-Apr-23 | OW | 14.46 | 16.5 |
| 06-Jul-23 | OW | 15.21 | 17 |
| 03-Aug-23 | OW | 15.05 | 18 |
| 05-Oct-23 | OW | 13.21 | 16.5 |
| 31-Oct-23 | OW | 12.36 | 15.5 |

AmBev ADR (ABEV, ABEV US) Price Chart



| Date | Rating | Price (\$) | Price Target (\$) |
|-----------|--------|------------|-------------------|
| 13-Jul-22 | OW | 2.51 | -- |

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 21, 2000. All share prices are as of market close on the previous business day.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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| | Overweight (buy) | Neutral (hold) | Underweight (sell) |
|--|---------------------|-------------------|-----------------------|
| J.P. Morgan Global Equity Research Coverage* | 47% | 39% | 14% |
| IB clients** | 47% | 45% | 33% |
| JPMS Equity Research Coverage* | 46% | 41% | 13% |
| IB clients** | 65% | 64% | 51% |

*Please note that the percentages may not add to 100% because of rounding.

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