Cheer as AB InBev recovers

The ignominy of it all. SA Breweries (SAB) was once a colossus that strode across the global beer market, inspiring fear and respect (well, sometimes) wherever it went.

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Now, 20 years after it first stuck its toe into the world market, SAB has been tucked into that catch-all category used by multinationals for territories they haven't yet quite made up their minds about: Europe, the Middle East and Africa. At least SAB had the benefit of ABInBev's $104bn payout to shareholders last year - cash that does compensate for lots of ignominy.

For SA shareholders who agreed last year to swap their shareholding in SABMiller for those in AB InBev, last week's results for the three months to June (its second quarter) were the first ray of sunlight to emerge since the takeover.

Since AB InBev listed on the JSE in October at R1,845/share, the stock has tumbled 13.3%. But with last week's results - earnings up 12% to $5.35bn as it took a hatchet to $335m in costs - the share price soared 6.8% on the JSE. Sentiment, it seems, has shifted.

This is why a number of analysts, including Standard Bank Securities, Societe Generale and HSBC, raised their target share price for the company. It says much that of the 36 analysts who cover AB InBev, 24 rate it a buy, 11 a hold and just one a sell.

For those worried that SA might become a distinctly forgettable second fiddle in the wider AB InBev, the good news is that the country did make it to the top of the highlights list in the results. This is because the SA business reported stellar 10.8% volume growth - the strongest growth on record at SAB, as far as anyone at AB InBev can tell.

"It is the highest beer volume growth by some measure in SA for a decade and more," says Marcel Regis, business unit president: SA.

What is intriguing is that this has happened now that the former SABMiller has been placed under the control of the notoriously tight-fisted Brazilian team that controls AB InBev.

Other factors are involved, of course: the timing of Easter helped, as did unseasonally warm weather and the introduction of powerful AB InBev brands in local markets, such as Stella Artois and Corona.

But the boost from AB InBev brands seemed to be a pattern across much of the old SABMiller territory. CEO Carlos Brito told analysts that the introduction of AB InBev's global brands had done very well in every SAB market into which they were introduced.

As it stands, AB InBev now owns seven of the top 10 global beer brands, including Budweiser, which is the most valuable beer brand in the world, worth $24.6bn, according to Forbes.

Thirst for beer has AB InBev brewing more
Colleen Goko 14 Jul 2017

In SA, where the group recently announced a R2.8bn expansion, there was also a concerted effort to push near-beer products such as Flying Fish and Brutal Fruit. And, reversing seven years of double-digit declines, the cider product Redd's achieved remarkable 20% growth.

But the analysts who spoke to Brito in a teleconference seemed uninterested in the outstanding SA performance, asking just one SA beer question, which was about the prospects of relaunched Lion Lager cannibalising Castle and Hansa.

Brito was adamant that the relaunch, which was targeting cheap liquor options in the market, was being done in a controlled fashion, "There is no rush; we are very careful," he said.

Bernstein's lead analyst Trevor Stirling wasn't overly impressed with the SA volume growth. "It strikes us as unsustainable," he wrote in a report after the results.

Only it wasn't just an SA feature; elsewhere in Africa growth was also impressive. Beer volumes grew by over 20%, fuelled by strong growth in Nigeria, Tanzania and Uganda. "We also saw high single-digit beer volume growth in Zambia and marginal growth in Mozambique, with share gains in both markets," says Regis.

Overall, AB InBev did better than expected globally, with strong sales in Mexico, Argentina and China. (Volumes fell in the US, Brazil and Colombia, however.)

JPMorgan describes it as "better than expected", saying it has "confidence in AB InBev's ability to generate superior growth through best-inclass management ability".

But it was the rapid cost-cutting - at this stage $100m more than it flagged - that raised eyebrows.

It shouldn't have been that much of a surprise: AB InBev is renowned for being ruthless with costs (down to having to justify requests for new stationery). But it does indicate that the company is moving faster than expected in its bid to make $2.8bn in savings over the next few years, while shedding 5,500 jobs.

On this point, brokerage Vestact says: "There is only so much you can do about your customers consuming more beer; there is a lot you can do about costs."

Brito says the better-than-expected cost savings are not uncommon. "We see it as a learning process; synergies tend to accelerate in the first quarters . it reflects the good planning our teams did," he says.

Shareholders will be relieved to hear that Brito is happy with the SABMiller integration process. "Our new colleagues have really embraced our culture, they are now part of our 'one company, one culture, one dream', so we're very happy," he says.

However, while the ink isn't even dry on the SABMiller deal, speculation is already mounting about yet another megamerger - a sign that Brito's dynamic Brazilian management team behind AB InBev's dominance of the global beer market has regained its form.

Brewer AB InBev sells big brands to complete megamerger
12 Oct 2016

Right now that would be a bridge too far: much as there was a lot to be happy about, there are still some big holes in AB InBev that need fixing.

Central to this are sluggish sales in ABInBev's two most important markets - the US and Brazil.

In America, where Budweiser and Bud Light are household names, AB InBev's market share is down 85 basis points. So while global revenue rose 4.4% in the six months to June, sales in the US fell 1.3% over that time. (Though this was mitigated by stricter cost cuts, which pushed earnings up 3.9%.)

It'll be especially disappointing for Brito, given that the company bought 10 domestic craft breweries over the past six years. It's due entirely to the waning performance on home turf of Budweiser and Bud Light, however.

Brazil was equally depressing, even though the political upheaval would have given people a reason to drink. But volumes were down 3.8% and margins were 334 basis points lower in the second quarter.

Bernstein's Stirling says there are concerns about currency risks surrounding Brazil's real as well as uncertainty about economic growth.

But some analysts, such as Eamonn Ferry from Exane BNP Paribas, believe the "worst is over. AB InBev is back in business".

More cautious investors will want to see whether the trend can be repeated next quarter. But either way, the results were a welcome respite for AB InBev after a tough year.

If the volume growth in places such as SA and Mexico doesn't become a sustained characteristic of the new era, AB InBev may need to produce more tricks to breathe life back into the share price. Like another megamerger.

Source: Financial Mail