

Rating Action: Moody's assigns a A3/Aaa.br ratings to Ambev's proposed debentures

Global Credit Research - 30 Oct 2015

Sao Paulo, October 30, 2015 -- Moody's América Latina has today assigned an A3/ Aaa.br to Ambev's proposed BRL 1.0 billion senior unsecured debentures due 2021. The outlook for the rating is stable.

Ratings assigned:

Issuer: Ambev S.A.

- BRL 1.0 billion senior unsecured debentures due 2021: A3/Aaa.br

The outlook for the ratings is stable.

RATINGS RATIONALE

Ambev's Baa1 (foreign currency), A3 (local currency) and Aaa.br (national scale) ratings acknowledge its scale as one of the world's largest brewers, its leading position in large markets, such as Brazil and Canada, its geographic diversification and a cost-competitive own distribution network. In Brazil, its dominant position and execution capabilities will allow it to advance in terms of market share even in a more challenging macroeconomic scenario. The company's continued investments in product innovation and marketing, coupled with prudent cost management and financial strategy, translate into sound and relatively stable EBITDA margins and very comfortable leverage and liquidity levels. The rating also reflects the enhanced operating performance of Ambev's parent company, Anheuser-Busch Inbev SA/NV (ABI, A2 under review for downgrade).

Offsetting these positive factors are prospects for more subdued volume growth, given current economic slowdown in some of the countries where it operates, mainly Brazil. Also, there is a likelihood of continued high dividend payouts to ABI, although these are expected to match cash flow generation. The commodity-like nature and volatility of input costs and Ambev's reliance on effective hedging strategies are also incorporated in the ratings.

The proposed debentures were rated at the same level as Ambev's local currency issuer rating (A3/Aaa.br) to reflect the instrument's seniority, which ranks pari-passu to other instruments existing within the company's capital structure. Proceeds from the issuance will be directed towards investments projects to expand capacity.

Pro forma to the transaction, we expect Ambev's leverage to remain fairly stable at 0.33 times from 0.28 times in the LTM ended June 2015, which compares very favorably to similarly rated peers. The issuance will also not change Ambev's liquidity profile, as cash in hands will still cover short term debt by 7.2 times and total debt by 2.0 times (compared to 2.9 times at the end of June 2015). Ambev has a strong liquidity profile for its current level of operations, supported by a conservative approach to debt and risk, and robust cash from operations, which amounted to BRL 21.2 billion in the last twelve months ended June 2015, more than enough to meet its capital expenditures needs of BRL 4.4 billion and dividends payment of BRL 12.6 billion in the same period. Including the announced investments we expect Ambev's capex in 2015 and 2016 to be in-line with last year's amount.

The stable outlook reflects Moody's expectations that Ambev will continue to benefit from market growth, further investments in product innovation and a conservative financial management. Consequently, the sustained operating margins and matching dividend payout to cash flow generation will allow it to maintain low leverage and good liquidity.

Ambev's rating or outlook could suffer negative pressure if its overall operating performance were to deteriorate due to greater than expected volatility in any of its major markets, or if the company's leverage were to significantly increase due to a change in capital structure or a debt-financed acquisition. Furthermore, a decrease in the coverage of foreign currency EBITDA to foreign currency debt or a perceived reduction in the company's ability to service foreign currency debt outside of Brazil would weaken notching considerations and could prompt a downgrade of the foreign currency ratings. Finally, a downgrade of ABI's rating, which is under review for downgrade, by two notches or more would put pressure of Ambev's ratings. Quantitatively, a downgrade could be

considered if EBITA/Interest fell below 6.0x or debt to EBITDA increased to above 2.0x on a sustainable basis. (All metrics according to Moody's standard adjustments and definitions.)

Upward ratings momentum is unlikely and would depend on an improvement in the national economy of Ambev's main markets and the maintenance of steady and strong credit metrics.

Headquartered in São Paulo, Brazil, Ambev S.A. operates in the production, distribution and sales of alcoholic and non-alcoholic beverages in 16 countries across the Americas. For the last twelve months ending June 2015, Ambev reported net sales of BRL 41.5 billion (approximately USD 15.5 billion at average exchange rates for the period) with EBITDA margin of 48% in the same period.

Ambev is the largest brewer in Latin America and the world's fourth largest beer producer in terms of volume, in addition to being PepsiCo's largest bottler. Its large portfolio includes well-known brands, such as Skol, Brahma, Stella Artois, Budweiser, Antarctica, Quilmes, among others, as well as Gatorade, Pepsi Cola, H2OH! and Lipton Ice Tea, sold under license from PepsiCo. Since 2004, Ambev has been controlled by Anheuser-Busch InBev (ABI), a leading global brewer and one of the world's top five beverage producers.

The principal methodology used in these ratings was Global Alcoholic Beverage Industry published in October 2013. Please see the Credit Policy page on www.moody.com.br for a copy of this methodology.

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The date of the last Credit Rating Action was 12/8/2015.

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