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Rating Action: Moody's downgrades Ambev's ratings to Baa3; negative outlook

Global Credit Research - 25 Feb 2016

Sao Paulo, February 25, 2016 -- Moody's América Latina has today downgraded the global scale rating to Baa3 from A3 and confirmed the national scale rating of Aaa.br of the BRL 1.0 billion senior debentures due 2021 issued by Ambev S.A. At the same time, Moody's Investors Service downgraded Ambev's foreign currency senior unsecured ratings to Baa3 (global scale foreign currency and local currency) from Baa1 (global scale local currency) and A3 (global scale local currency). The outlook for the ratings is negative.

The rating action follows Moody's downgrade on February 24, 2016 of Brazil's government bond rating to Ba2 from Baa3. In addition to downgrading Brazil's government bond rating, Moody's also downgraded the country's senior unsecured debt rating to Ba2 from Baa3, and the senior unsecured shelf rating to (P)Ba2 from (P)Baa3. The outlook was changed to negative. The rating agency also changed Brazil's country ceiling that went to Ba1 from Baa2.

This rating action concludes the review for downgrade initiated on December, 2015. Please see " Moody's downgrades Brazil's issuer and bond ratings to Ba2 with a negative outlook" on moodys.com for more information.

Issuer: Ambev S.A.

- BRL 1.0 billion senior unsecured debentures due 2021: Downgraded to Baa3 from A3 (Global Scale), Confirmed at Aaa.br (National Scale)

The outlook for the ratings is negative.

RATINGS RATIONALE

The downgrade of Ambev's ratings was prompted by the downgrade of Brazil's issuer and bond ratings to Ba2 from Baa3. This concludes the review process initiated on December 11 2015.

Ambev is rated above Brazil's issuer rating and above the country's foreign currency ceiling for bonds and notes of Ba1, which is granted only under exceptional circumstances when an issuer's fundamentals are stronger than those of the sovereign. In the case of Ambev this is evidenced by its exceptionally strong credit metrics, ample liquidity, limited reliance on the local banking system for funding and meaningful cash generation outside Brazil, which is sufficient to service the company's foreign currency debt. These factors outweigh Ambev's links with the Brazilian economy. Nonetheless, with 59% of the revenues dependent on the domestic market and the deteriorating economic and political environment Ambev's ratings are unlikely to stand more than two notches above Brazil's bond ratings.

Ambev's ratings are supported by 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 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.

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.

With the recent downgrade of the government of Brazil on the global rating scale and other issuers whose risk profiles are affected by related credit considerations, the distribution of national scale ratings (NSRs) among issuers in Brazil has become compressed, particularly at the Aa2.br level. As a result, the current mapping of global scale ratings to national scale ratings may no longer be adequately serving one of its intended purposes, which is to provide greater credit differentiation among issuers in Brazil than is possible on the global rating scale. However, if Moody's NSR methodology is revised as proposed in the Request for Comment (RFC) entitled "Mapping National Scale Ratings from Global Scale Ratings" published on January 20, the resulting new Brazilian scale would likely imply that many Brazil global scale ratings would be remapped to higher ratings on the national scale.

While the RFC included a new proposed national scale map for Brazil, given the aforementioned ratings changes, the new map design for Brazil will likely differ from the specific map proposal included in the RFC. In addition to the proposed Brazilian map, the RFC comprised a proposed update to our methodology for mapping national scale ratings from global scale ratings, including guidelines for the design of new national scale maps and changes to existing maps, as well as proposed new national scale maps for each of the other countries in which we currently offer NSRs. The comment period for this RFC closed on February 22.

The negative outlook on Ambev's ratings mirrors Brazil's sovereign ratings outlook.

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. Quantitatively, a downgrade could be considered if EBITA/Interest fell below 4.0x or debt to EBITDA increased to above 3.5x on a sustainable basis. (All metrics according to Moody's standard adjustments and definitions.)

Although unlikely in the short term, an upgrade would depend on an upgrade on Brazil's sovereign ratings and on the maintenance by Ambev 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 September 2015, Ambev reported net sales of BRL 43.7 billion (approximately USD 14.5 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 Ratings Methodologies page on www.moodys.com.br for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

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