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CREDIT OPINION
27 October 2016

Update

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RATINGS

Ambev S.A.

Domicile	Sao Paulo, Brazil
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Ambev S.A.

Annual Update

Summary Rating Rationale

Ambev's Baa3 rating is 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 gives a competitive advantage in managing volumes, prices and market share in a 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 ratings are primarily constrained by Brazil's sovereign bond ratings. Prospects for more subdued volume growth, given the current economic slowdown in Brazil, is an additional rating negative. 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.

Credit Strengths

» Large scale, diversification and brand recognition

» Sound margins and healthy credit metrics

» Enhanced position in Latin and Central America and the Caribbean

Credit Challenges

» Ratings are constrained by Brazil's sovereign ratings

» Challenging consumer environment in Brazil

» High dividend payout to Anheuser-Busch InBev's ("ABI")

Rating Outlook

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

Factors that Could Lead to an Upgrade

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.

Factors that Could Lead to a Downgrade

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.)

Key Indicators

Exhibit 1

Key Indicators

Ambev. S.A.

	6/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Sales (USD Billion)	$13.0	$14.3	$16.2	$16.3	$16.6
Profitability (EBITA Margin)	37.4%	39.0%	40.8%	44.1%	41.3%
RCF / Net Debt	-2,518.7%	-212.3%	-74.4%	-111.8%	-154.9%
EBIT / Interest Expense	21.9x	35.2x	28.4x	24.4x	30.3x
Debt / EBITDA	0.3x	0.5x	0.3x	0.3x	0.3x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's

Detailed Rating Considerations

LARGE SCALE, DIVERSIFICATION AND BRAND RECOGNITION

Ambev is present in 18 countries and has a vast portfolio of brands of alcoholic and non-alcoholic beverages, benefiting from scale, diversification and brand recognition. While scale translates into higher bargaining power with suppliers, geographic and product diversity mitigates cash flow volatility arising from weather events or market ruptures in specific regions.

In addition, we highlight Ambev's leading position in most of its operating markets, such as Brazil and Canada, where its market shares are approximately 70% and 42%, respectively. Also, the company's well developed and sophisticated distribution structure - with the delivery of its products to large retail stores, smaller moms and pops, as well as pubs, bars and restaurants - are factors that contribute to an important competitive advantage. We regard Ambev's cost advantages as structural and hardly replicable by competitors in the medium term, which ultimately mitigates margin volatility resulted from fiercer competition from existing players in key markets, and represent an entry barrier for new competitors.

As for brand recognition, we believe the company's marketing and innovation capabilities offer a distinct advantage over competitors and helps to mitigate slower alcoholic and non-alcoholic consumption during downturns. Sponsorship of important events such as the yearly Rio de Janeiro Carnival and Brazil's national soccer championships exemplify strong relationship and brand activation capabilities. Ambev has also pursued the introduction of new premium products (such as Skol Beats Senses in Brazil, and Corona in Brazil and Canada) to improve sales mix and help preserve margins. Finally, the company is also pursuing cost saving initiatives such as increasing the share of returnable bottles in its sales mix.

CHALLENGING CONSUMER ENVIRONMENT IN BRAZIL

Short-term volume growth will remain challenged by the economic recession in Ambev's major market, Brazil, where high inflation has been pressuring disposable income and impacting alcoholic beverage consumption. Moody´s estimates point to a 3.5% contraction in GDP for 2016 and minimal growth of 0.5% in 2017 (after a 3.9% contraction in GDP in 2015). Market consensus point to inflation in the 7.0 - 7.5% range by year-end, returning to 5.1% in 2017. Net job creation has been negative for 16 consecutive months, with an accumulated reduction of 1.7 million formal jobs in the twelve months through August 2016. Business and consumer confidence in Brazil improved considerably during 2016 with the advancement and later conclusion of the presidential impeachment process, but fundamentals such as inflation, labor market, and consumer income, have not shown any meaningful advance thus far.

Despite these short term challenges, Ambev's strong and well-known brands have historically enabled the company to pass through cost increases with only temporary impact on market share, and, in the long run, this efficient cost management will continue to be key to support profitability. Moreover, the long-term outlook for the Brazilian beverage segment is still positive, given the low penetration rates of alcoholic beverage consumption and long-term outlook for higher average disposable income.

SOUND MARGINS AND HEALTHY CREDIT METRICS

Ambev has solid profitability levels, with an adjusted EBITDA margin of 44.5% and adjusted leverage ratio of 0.3x for the last twelve months ended June 2016. Cash flow generation is also very strong, and over time the company has a proven ability to post positive free cash flow generation even with its high dividend payout ratio and aggressive investment plan.

Additionally, despite the volatility of commodity-like input costs, Ambev has been cost efficient over time, reporting relatively stable operating margins. This superior performance is mainly due to (i) the ability of passing through costs to the final consumer; (ii) the strictly established internal processes and cost-control initiatives; and (iii) the company's ability to fully hedge its raw material needs 12-months ahead, consequently avoiding sharp input price spikes. This hedge strategy will lead to a decline in profitability in 2016, as the company recognizes the effect of the depreciated exchange rate in Brazil, observed since mid-2015. For 2017, however, we expect an improvement in profitability as the company benefits from the recent appreciation of the Brazilian Real on US-denominated costs (35%-40% of total). The benefits from local currency appreciation will favor costs and support the company´s future profitability along with the drop in commodity prices such as that of aluminum, although the recent surge in sugar prices will weight heavily on the Carbonated Soft Drinks division.

HIGH DIVIDEND PAYOUT TO ABI

Ambev is a public company, with shares traded in the São Paulo and New York stock exchanges. ABI is Ambev's largest and controlling shareholder, holding indirectly - through two subsidiaries, "IIBV" and "AmBrew" - 61.9% of the company's voting shares. The company is ruled by a shareholder agreement signed between IIBV, AmBrew and Fundação Zerrener. Fundação Zerrener holds 9.9% of Ambev's voting shares.

Ambev is a key subsidiary for ABI, having historically accounted for approximately 30% and 45% of its consolidated revenues and EBITDA, and an important source of funding to its parent, through historically high dividend distributions (BRL 11.5 billion in 2015). According to ABI´s preliminary pro-forma reports, Latin American operations will not change meaningfully its participation in terms of revenue with the acquisition and further integration of SABMiller.

Nevertheless, the acquisition should drive ABI's adjusted leverage to above 5.0x, declining by around half of a turn annually over the next several years. Accordingly, we anticipate that Ambev's dividends payments to ABI will remain considerable. Ambev has funded the dividend payments from its current high cash balance or internal cash generation, and it has historically matched available free cash flow generation.

ENHANCED POSITION IN LATIN AND CENTRAL AMERICA AND THE CARIBBEAN

Ambev has been strengthening its position in Latin and Central America and the Caribbean over time, mainly as a result of acquisitions in the region and investments in capacity in Brazil. Although this strategy has increased Ambev's footprint in the region, Brazil continues to be Ambev's largest market, representing 55% and 62% of revenues and EBITDA generated in the last twelve months ended June 2016.

The company's expansion started in 1994 with the internationalization of the Brahma brand and business combinations, acquisitions and strategic alliances. Currently, the company operates in Argentina, Paraguay, Bolivia, Uruguay, Peru, Ecuador, Chile, Colombia and the Dominican Republic, in addition to other countries in Central America and in the Caribbean, with leading positions (#1 or #2 player) in all markets in South America. Such diversification helps mitigate regional vagaries and economic down cycles, and Ambev's strong marketing expertise ensures market share gains and sales volumes expansion, which contribute to an overall stable operating performance. Recently, a decline in sales volumes in Argentina and Peru was compensated by Ambev's strategy to introduce new products and invest in premium brands in other markets, such as Chile and Paraguay, which led to an overall increase in profitability for the South America division. In Central America and the Caribbean, the company pursued a deeper market penetration through new platforms and was able to continue improving the profitability for this division as well.

RATING STANDS ABOVE BRAZIL'S GOVERNMENT BOND RATINGS

Ambev's Baa3 foreign currency rating stands above Brazil's Ba2 issuer rating, 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, meaningful cash generation outside Brazil, which is sufficient to service the company's small foreign currency debt, and relevance to controlling shareholder ABI. These factors outweigh Ambev's links with the Brazilian economy.

Ambev's foreign currency ratings are supported by: (i) the company's cash generation outside of Brazil, sufficient to comfortably cover the totality of foreign currency debt outstanding; (ii) the existence of assets abroad and resulting ability of collecting money abroad, which eliminates capital control risk; and (iii) ownership by a foreign corporation, ABI. Nonetheless, the ratings are unlikely to stand more than two notches above Brazil's sovereign ratings, given Ambev's still large exposure to the domestic market. According to Moody's methodology "How Sovereign Credit Quality Can Affect Other Ratings", published on 16 March, 2015, ratings of strong entities are likely to be more than two notches above the sovereign only when a substantial majority of revenues, cash flow and assets are derived from foreign sources and there is no reliance on local market funding. Although Ambev has little reliance on the local market for funding, the company's revenues, assets and cash flows are still concentrated in Brazil.

Liquidity Analysis

Ambev has a strong liquidity profile for its current level of operations and, as of June 2016, its cash and equivalents amounted to BRL 6.0 billion, enough to cover reported short-term debt by 3.6x, and total reported debt by 1.6x. Ambev's solid liquidity is further supported by its robust cash from operations, which amounted to BRL 16.4 billion in the last twelve months ended June 2016, more than enough to meet its capital expenditures needs of BRL 5.3 billion and dividends payment of BRL 7.1 billion in the same period.

Profile

Headquartered in São Paulo, Brazil, Ambev S.A. operates in the production, distribution and sales of alcoholic and non-alcoholic beverages in 18 countries across the Americas. During the twelves months ended June 2016, Ambev reported net sales of BRL 47.9 billion (USD 13 billion) with adjusted EBITDA margin of 44.5%.

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, Beck's, Budweiser, Antarctica, Quilmes, Bud Light, Corona among others, as well as Gatorade, Pepsi Cola, H2OH!, Lipton Ice Tea and Seven UP, sold under license from PepsiCo. Since 2004, Ambev has been controlled by Anheuser-Busch InBev (ABI) (A3 stable), a leading global brewer and one of the world's top five beverage producers.

Rating Methodology and Scorecard Factors

Ambev's grid-indicated rating under Moody's Global Alcoholic Beverage Industry Rating Methodology maps to “A1”, five notches above the assigned rating, reflecting the company's very strong credit metrics, while the assigned ratings are primarily constrained by Brazil's sovereign ratings. Prospectively, we expect the company's metrics to remain strong for the rating category, despite the anticipated challenges in Brazil.

Exhibit 2

Rating Factors

Ambev S.A.

Alcoholic Beverage Industry Grid [1][2]	Current LTM 6/30/2016		Moody's 12-18 Month Forward View As of 8/30/2016 [3]	
Factor 1 : Scale & Diversification (34%)	Measure	Score	Measure	Score
a) Sales (USD Billion)	$13.0	Baa	$10 - $15	Baa
b) Diversification by Market AND /OR Exposure to Riskier Alcoholic Beverage Markets	Ba	Ba	Ba	Ba
c) Category / Brand Strength & Diversification	A	A	A	A
Factor 2 : Franchise Strength & Profitability (25%)				
a) Global Industry Position	A	A	A	A
b) Innovation, Distribution, Infrastructure	A	A	A	A
c) Profitability (EBITA Margin)	37.4%	Aa	35% - 40%	Aa
Factor 3 : Financial Policy (14%)				
a) Financial Policy	A	A	A	A
Factor 4 : Leverage and Coverage (27%)				
a) RCF / Net Debt	-2,518.7%	Aaa	(100%) - (200%)	Aaa
b) EBIT / Interest Expense	21.9x	Aaa	20x-40x	Aaa
c) Debt / EBITDA	0.3x	Aaa	0.2x - 0.5x	Aaa
Rating:				
a) Indicated Rating from Grid		A1		A1
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2016(L). [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™.

Ratings

Exhibit 3

Category	Moody's Rating
AMBEV S.A.	
Outlook	Negative
Issuer Rating	Baa3
Senior Unsecured -Dom Curr	Baa3
NSR Senior Unsecured	Aaa.br
PARENT: ANHEUSER-BUSCH INBEV SA/NV	
Outlook	Stable
Issuer Rating -Dom Curr	A3
Bkd Senior Unsecured	A3
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

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