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CREDIT OPINION
27 March 2018

Update

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RATINGS

Ambev S.A.

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

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.

Update to credit analysis

Summary rating rationale

Ambev's Baa3 rating is supported by its scale as one of the world's largest brewers, present in 19 countries, enjoying leading positions in markets including Brazil and Canada, and with a vast portfolio of brands of alcoholic and non-alcoholic beverages. The company benefits from diversification and brand recognition, while scale translates into higher bargaining power with suppliers. Moreover, its geographic and product diversity mitigates cash flow volatility arising from weather events or market ruptures in specific regions.

The company´s dominant market position in Brazil, strong execution capabilities and strict cost control allowed it to withstand the recent downturn in the local economy and still maintain exceptionally strong profitability and credit metrics. Additionally, the limited reliance on the local banking system for funding, a relevant portion of assets and cash generation outside Brazil, and its importance to controlling shareholder Anheuser-Busch InBev (ABI) (A3 stable), help to outweigh Ambev's links with the Brazilian economy.

Constraining Ambev´s ratings are the commodity-like nature and volatility of input costs and its reliance on effective hedging strategies. Also, there is a likelihood of continued high dividend payouts to its controlling shareholder, especially in a moment where ABI presents high leverage.

Credit strengths

» Large scale, geographic diversification and brand recognition

» Sound margins and healthy credit metrics

» Leading market position in Brazil and Canada, along with strong execution capabilities and strict cost control

Credit challenges

» Ratings are constrained by Brazil's sovereign ratings

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

Rating outlook

The stable outlook reflects the company's exceptionally strong credit metrics, dominant position and operational resilience, which, along with other characteristics, help to outweigh its links with the sovereign environment, where it generates roughly 56.5% of its EBITDA. At the same time, we expect Ambev to benefit from a gradual improvement of the Brazilian economy after two years of recession. We expect Ambev to benefit from the diversity of its portfolio and geographical footprint, and that to maintain a conservative financial management and strict cost-control.

Factors that could lead to an upgrade

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. Quantitatively, a downgrade could be considered if EBIT/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.

Ambev S.A.

US Millions	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	LTM (Dec-17)	12-18 Month Forward View
Revenue	16,566.6	16,317.0	16,224.6	14,251.5	13,145.9	15,003.7	15,500 - 16,500
EBITA Margin %	41.3%	44.3%	42.9%	42.3%	36.2%	35.5%	36% - 38%
RCF / Net Debt	-154.9%	-337.3%	-99.9%	-259.3%	9810.0%	-100.2%	- -
EBIT / Interest Expense	30.3x	26.0x	12.2x	13.1x	15.2x	16.9x	17x - 20x
Debt / EBITDA	0.3x	0.5x	0.4x	0.5x	0.4x	0.2x	< 0.3x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Profile

Headquartered in São Paulo, Brazil, Ambev S.A. operates in the production, distribution and sales of alcoholic and non-alcoholic beverages in 19 countries across the Americas. During the twelve months ended December 2017, Ambev reported net sales of BRL 47.9 billion (USD 14.5 billion) with adjusted EBITDA margin of 43.1%.

Ambev is the largest brewer in Latin America, 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 Fusion, H2OH!, Lipton, Gatorade and Do Bem. 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.

Detailed credit considerations

Large scale, diversification and brand recognition

Ambev is present in 19 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, Ambev has a 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

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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.

Ambev is also present in many South American countries with market share leadership in Argentina, Bolivia, Paraguay and Uruguay, and a second place market share in Chile. Mainstream beers in the region include Quilmes and Patricia. In the Central America and Caribbean footprint includes El Salvador, Cuba, Guatemala, Dominican Republic and, since December 2016, Ambev also incorporated the operations of SABMiller in Panamá after an asset swap with Inbev.

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.

Improvement in Brazil´s macroeconomic environment following 2015-16 recession favors mainstream beers

Despite its strong business resilience, Ambev´s performance has been negatively affected by Brazil´s recession during 2015 and 2016 and estimated GDP growth of just 0.6% in 2017. Beer Brazil presented a 6.6% drop in volumes during 2016, but has been showing an improving trend which helped 2017 volumes to finish up 0.6% year-on-year with revenues up 6.3%. Consolidated Ambev Revenues in 2017 advanced 5% as compared to 2016 and volumes increased 1.9%.

Going forward, we expect that execution and innovation will continue to drive volumes and margins. The premium beers, near-beer alternatives, waters and energy drinks should continue to growth double-digits and the main recovery will come from the mainstream beers. Ambev´s brands Skol, Antartica and Brahma are price references for mainstream and suffered more in a consumer constraint environment of the past two years. For Brazil Moody´s estimates that GDP will grow 2.5% in 2018 and 2019, while market consensus point to inflation in the 4.0 - 4.5% range in the same period. For Ambev we estimate revenue growth of 9% on higher volumes and average revenue per hectoliter.

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. The long-term outlook for the Brazilian beverage segment remains 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

Despite the volatility of commodity-like input costs, Ambev has been cost efficient over time, reporting relatively stable operating margins. The 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.

In 2017, Ambev has posted an adjusted EBITDA margin of 43.1%, and adjusted leverage ratio of 0.2x in 2017, and strong cash flow generation. We expect EBITDA margin to improve further in 2018 to 44.2% on higher volumes, higher average prices per hectoliters and lower costs, helped by lower sugar costs which should compensate some increase in aluminum.

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 56.5% of revenues and EBITDA generated in the full year 2017. On December of 2016, in a share swap, Ambev transferred its operations in Colombia, Peru and Equador to ABI and received in exchange the operations of SABMiller in Panama. The swap led to an increase of 27% in the Caribbean volumes.

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, Bolivia, Chile, Dominican Republic, Panama, Paraguay, and Uruguay 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. For example, a decline in sales volumes in Argentina was compensated by Ambev's strategy to introduce new products and invest in premium brands in other markets, such as Chile, Bolivia and Paraguay, which led to an overall increase in profitability for the South America division. In Central America and the Caribbean, the company has been pursuing a deeper market penetration through new platforms and was able to continue improving the profitability for this division as well.

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 8.5 billion in 2017). This is specially true with ABI´s goal to reduce leverage after the acquisition of SABMiller. The acquisition elevated ABI's leverage into speculative grade territory, with Debt/EBITDA expected to be around 5.7x (Moody's adjusted) at the end of 2017, down from about 6.0x at the end of 2016 (just after closing). Accordingly, we anticipate that Ambev's dividends payments to ABI will remain high.

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.

Liquidity analysis

Ambev has a strong liquidity profile for its current level of operations and, as of December 2017, its cash and equivalents amounted to BRL 10.37 billion, enough to cover reported short-term debt by 2.2x. Ambev's solid liquidity is further supported by its robust cash from operations, which amounted to BRL 17.9 billion in the full year 2017, and when added to its cash position is more than enough to meet its capital expenditures needs of BRL 3.2 billion and dividends payment of BRL 8.5 billion in the same period.

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.

Exhibit 3

Rating Factors

Ambev S.A.

Alcoholic Beverage Industry Grid [1][2]	Current FY 12/31/2017		Moody's 12-18 Month Forward View As of 3/23/2018 [3]	
Factor 1 : Scale & Diversification (34%)	**Measure**	**Score**	**Measure**	**Score**
a) Sales (USD Billion)	$15.0	A	$15.5 - $16.5	A
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)	35.5%	Aa	36% - 38%	Aa
Factor 3 : Financial Policy (14%)				
a) Financial Policy	A	A	A	A
Factor 4 : Leverage and Coverage (27%)				
a) RCF / Net Debt	-100.2%	Aaa	- -	Aaa
b) EBIT / Interest Expense	16.9x	Aa	17x - 20x	Aa
c) Debt / EBITDA	0.2x	Aaa	< 0.3x	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 12/31/2017(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 4

Category	Moody's Rating
AMBEV S.A.	
Outlook	Stable
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

Appendix

Exhibit 5
Peer snapshot
Ambev S.A.

(in US millions)	Ambev S.A. Baa3 Stable			Carlsberg Breweries A/S Baa2 Stable			Coca-Cola FEMSA, S.A.B. de A2 Negative			Kirin Holdings Company, Limi A3 Stable			Heineken N.V. Baa1 Stable		
	FYE Dec-16	FYE Dec-17	LTM Dec-17	FYE Dec-15	FYE Dec-16	LTM	FYE Dec-15	FYE Dec-16	LTM Sep-17	FYE Dec-16	FYE Dec-17	LTM	FYE Dec-16	FYE Dec-17	LTM Dec-17
Revenue	$13,146	$15,004	$15,004	$9,729	$9,305		$9,627	$9,534	$10,970	$14,361	$14,040		$23,006	$24,731	$24,731
EBITDA	$5,784	$6,469	$6,469	$1,902	$1,944		$1,866	$1,692	$1,839	$2,589	$2,635		$5,308	$5,798	$5,798
Total Debt	$2,533	$1,552	$1,552	$6,282	$5,198		$4,151	$4,592	$4,646	$6,668	$5,215		$18,190	$21,890	$21,890
Cash & Cash Equiv.	$2,507	$3,125	$3,125	$451	$497		$926	$509	$1,113	$570	$1,428		$3,201	$2,932	$2,932
EBITA Margin	36.2%	35.5%	35.5%	12.8%	14.0%		14.6%	12.9%	12.8%	13.0%	14.0%		16.2%	16.6%	16.6%
EBIT / Int. Exp.	15.2x	16.9x	16.9x	4.5x	4.1x		5.8x	5.1x	5.7x	14.3x	12.9x		6.0x	5.7x	5.7x
Debt / EBITDA	0.4x	0.2x	0.2x	3.4x	2.8x		2.4x	3.0x	2.4x	2.8x	2.0x		3.6x	3.6x	3.6x
RCF / Net Debt	9810.0%	-100.2%	-100.2%	20.9%	21.0%		30.1%	16.6%	23.1%	25.6%	41.6%		20.5%	19.8%	19.8%
FCF / Debt	-23.6%	117.2%	117.2%	10.0%	13.5%		3.0%	9.9%	9.5%	11.5%	14.8%		5.2%	6.0%	6.0%

All figures & ratios calculated using Moody's estimates & standard adjustments. As of the most recently published last twelve month financial results. FYE = Financial Year-End. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Exhibit 6
Moody's-adjusted debt breakdown
Ambev S.A.

(in US Millions)	LTM Ending Sep-16	LTM Ending Dec-16	LTM Ending Mar-17	LTM Ending Jun-17	LTM Ending Sep-17	LTM Ending Dec-17
As Reported Debt	**1,366.5**	**1,658.0**	**1,617.0**	**1,492.4**	**1,052.6**	**770.2**
Pensions	683.9	656.8	673.3	645.2	675.8	696.6
Operating Leases	40.1	40.0	63.8	61.1	64.0	61.1
Non-Standard Adjustments	369.3	178.2	200.6	171.7	211.4	24.3
Moody's-Adjusted Debt	**2,459.9**	**2,533.0**	**2,554.7**	**2,370.4**	**2,003.8**	**1,552.2**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 7
Moody's-adjusted EBITDA Breakdown
Ambev S.A.

(in US Millions)	LTM Ending Sep-16	LTM Ending Dec-16	LTM Ending Mar-17	LTM Ending Jun-17	LTM Ending Sep-17	LTM Ending Dec-17
As Reported EBITDA	**5,565.1**	**5,367.9**	**5,199.5**	**5,304.6**	**5,513.9**	**5,876.3**
Pensions	27.7	31.3	33.0	33.7	33.9	31.5
Operating Leases	13.1	12.5	12.8	12.8	12.5	12.2
Unusual	719.0	370.8	334.9	256.4	252.7	547.8
Non-Standard Adjustments	1.6	1.4	1.5	0.0	-1.5	1.0
Moody's-Adjusted EBITDA	**6,326.5**	**5,784.0**	**5,581.7**	**5,607.5**	**5,811.5**	**6,468.7**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

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