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CREDIT OPINION
29 March 2019

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

Ambev S.A.'s (Ambev) Baa3 rating is supported by its scale as one of the world's largest brewers, presence in 19 countries, leading positions in markets including Brazil and Canada, and vast portfolio of brands of alcoholic and nonalcoholic beverages. The company benefits from its diversification and brand recognition, while its 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.

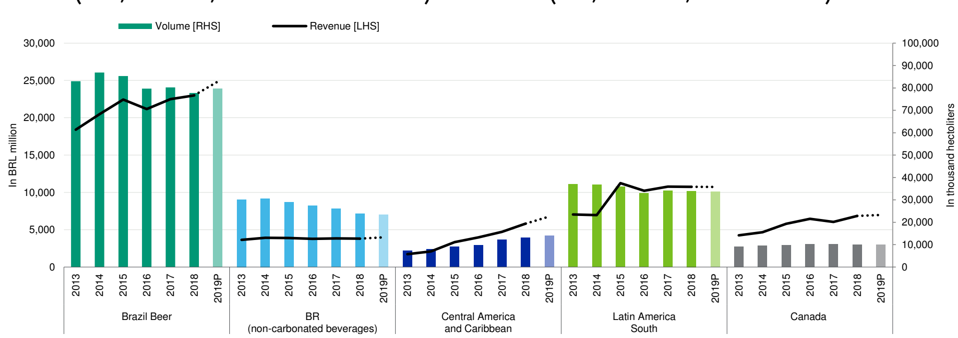
The company's dominant market position in Brazil, strong execution capabilities and strict cost control allowed it to withstand the recent downturn in the local economy and still maintain exceptionally strong profitability and credit metrics. Additionally, Ambev's limited reliance on the local banking system for funding, its generation of a significant portion of assets and cash outside Brazil, and its importance to the controlling shareholder Anheuser-Busch InBev SA/NV (ABI, Baa1 stable) help outweigh the company's links with the Brazilian economy.

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

Exhibit 1

Brazil beer benefits from consumer fundamentals, but Latin America South is challenged by a weak consumer environment in Argentina

Volume (RHS, bar chart, in thousand hectoliters) and revenue (LHS, line chart, in BRL millions)



Sources: Ambev S.A.'s financial statements, Moody's Investors Service

In 2019, metrics will remain robust. We expect a recovery in the volume and revenue of Ambev´s most important segment, Brazil beer, with improved consumer fundamentals. But aluminum, barley and foreign exchange will strain unitary costs. Argentina poses a challenge to volume growth, with a contracted consumer environment within the Latin America South segment.

Credit strengths

» Large scale, geographic diversification and brand recognition

» Sound margins and healthy credit metrics

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

Credit challenges

» Ratings constrained by the Government of Brazil's (Ba2, stable) ratings

» High dividend payouts to ABI

Rating outlook

The stable outlook reflects Ambev's exceptionally strong credit metrics, dominant positions and operational resilience, which, along with its other characteristics, help outweigh its links with the sovereign, where it generates roughly 56% of its EBITDA. At the same time, we expect the company to benefit from a gradual improvement in the Brazilian economy after an economic recession. We expect Ambev to benefit from the diversity of its portfolio and its geographic footprint, and maintain a conservative financial management and strict cost control.

Factors that could lead to an upgrade

A rating upgrade would depend on an upgrade of Brazil's sovereign ratings and Ambev's continued 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 because of greater-than-expected volatility in any of its major markets, or if the company's leverage were to significantly increase because of a change in its capital structure or a debt-financed acquisition. Quantitatively, a downgrade could be considered if its EBIT/interest fell below 4.0x or debt/EBITDA increased to above 3.5x on a sustainable basis (all metrics according to Moody's standard adjustments and definitions).

Key indicators

Exhibit 2
Ambev S.A.

USD Millions	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	LTM (Dec-18)	Next 12 - 18 Months Forward View
Revenue	16,317.0	16,224.6	14,251.5	13,145.9	15,003.7	13,836.9	14,000 - 16,000
EBITA Margin %	44.9%	43.3%	43.2%	36.8%	36.1%	35.8%	35% - 37%
RCF / Net Debt	-337.3%	-99.9%	-259.3%	9810.0%	-158.3%	-202.8%	--
EBIT / Interest Expense	26.0x	13.6x	13.2x	15.1x	15.8x	11.5x	11x - 14x
Debt / EBITDA	0.5x	0.4x	0.5x	0.4x	0.3x	0.3x	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 12 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 nonalcoholic beverages in 19 countries across the Americas. In the 12 months ended December 2018, Ambev reported net sales of BRL50.2 billion ($13.7 billion), with an adjusted EBITDA margin of 44.3%.

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 and Corona among others, as well as Fusion, H2OH!, Lipton, Gatorade and Do Bem. Since 2004, Ambev has been controlled by Anheuser-Busch InBev SA/NV (ABI), a leading global brewer and one of the world's top five beverage producers.

Detailed credit considerations

Large scale, diversification and brand recognition

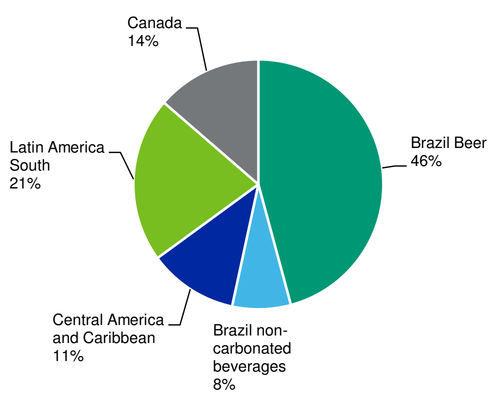
Ambev is present in 19 countries and has a vast portfolio of brands of alcoholic and nonalcoholic beverages, benefiting from scale, diversification and brand recognition. While its scale translates into higher bargaining power with suppliers, its geographic and product diversity mitigates the cash flow volatility arising from weather events or market ruptures in specific regions.

In addition, Ambev has a leading position in most of its operating markets, including Brazil, where we estimate a 64% market share, and Canada. Also, the company's well-developed and sophisticated distribution structure — the delivery of its products to large retail stores and small moms and pops, as well as pubs, bars and restaurants — is a factor that contributes 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, resulting from fiercer competition from existing competitors in key markets; these represent an entry barrier for new competitors.

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

Exhibit 3

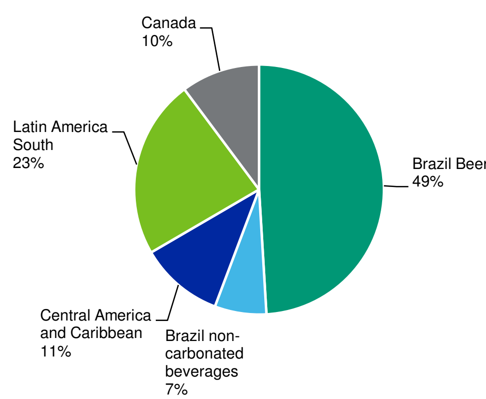
Revenue is diversified across the Americas with Brazil Beer as the most relevant source of revenue
As of December 2018



Sources: Ambev S.A.'s financial statements, Moody's Investors Service

Exhibit 4

Brazil Beer EBITDA contribution is even more significant as it delivers the highest margins of all segments, despite the drop in volume in 2018
As of December 2018



Sources: Ambev S.A.'s financial statements, Moody's Investors Service

As for brand recognition, we believe the company's marketing and innovation capabilities offer a distinct advantage over competitors and help mitigate lower alcoholic and nonalcoholic consumption during downturns. Sponsorship of important events such as the FIFA Soccer World Cup and the annual 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 to improve sales mix and help preserve margins. Ambev recently rolled out value packaging for its mainstream beers and a value beer brand (Nossa and Magnifica brands in the northeast of Brazil) to close the portfolio gap toward more value-oriented customers. Finally, the company is also pursuing cost-saving initiatives such as increasing the share of returnable bottles in its sales mix.

Brazil´s macroeconomic environment continues to pick up pace, favoring mainstream beers

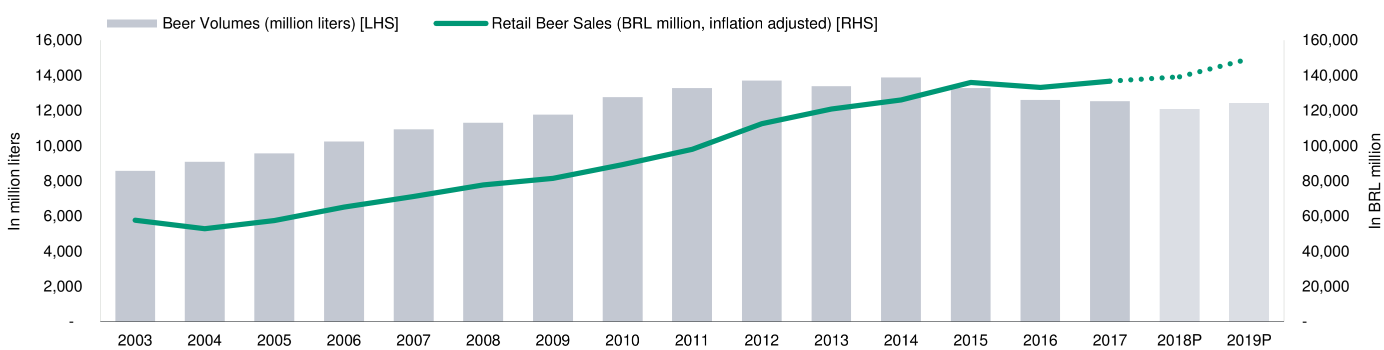
Despite its strong business resilience, Ambev´s performance was strained by Brazil´s recession in 2015 and 2017. In 2018, despite the slowly improving macro trends Beer Brazil presented a 3.1% drop in volume, although net revenue was up 2.2%. The volume was influenced by a difficult competitive environment and unexpected events, including a nationwide trucker's strike, which disrupted sales and distribution. In 2019, we expect a paced recovery, given the improving consumer environment.

In 2019, consumer markets in Brazil will continue to accelerate growth, and after years of trading down toward value offerings and lower ticket items, we believe a trade-up movement in terms of beer consumption will favor mainstream beers, the bulk of Ambev ´s beer volume in Brazil. This would help overall volume to recover and market share to recuperate. Macro fundamentals have been slowly improving, with the GDP expected to grow 2.3% in 2019, while inflation and interest rates remain at historically low levels of 4.5% and 6.5%, respectively. These macro elements will help support disposable levels. But the continuity of this constructive momentum depends on the effectiveness of the newly elected government in Brazil in implementing measures to halt the increasing fiscal imbalance in Brazil.

We expect execution and innovation to continue to drive volume. The premium beers should continue to grow at double digits in percentage terms, and the volume recovery will come from the mainstream beers. Ambev´s brands Skol, Antarctica and Brahma are price references for mainstream beers and suffer more in a consumer-constrained environment. Despite the past four challenging years, Ambev maintains its dominant position, with second largest competitor presenting a volume which is less than ⅓ that of Ambev. In the past few years, Ambev has continued to increase its premium portfolio to include Budweiser, Stella Artois and Corona, but it lacks the presence in terms of value offerings. This is likely one of the reasons for some of its market share loss in volumes. In late 2018, Ambev rolled out two value offerings at a regional level, the Nossa brand to be sold in Pernambuco and the Magnifica brand to be sold in Maranhão, both states in the Brazilian Northeast region. The strategy behind these two brands is to commercialize beers at a very low cost, making use of local ingredients (mainly manioc), in-house marketing via a sales team and economical bottling (returnable 600 mL and 310 mL bottles), and benefiting from local tax savings. These beers will add to the portfolio breadth and contribute to the consolidated margin because of its low cost. Other additions to Ambev's portfolio are Skol Hops and Skol Pure Malt.

Exhibit 5

Brazil beer volume dropped during the economic downturn, but mix and price pass-through maintained the sales momentum



Sources: Euromonitor, Moody's Investors Service, Moody's Investors Service projections for 2018 and 2019

Despite the competition with other alcoholic beverages, including distillates and wine, we expect beer to continue gaining traction in terms of volume, amid an improved consumer environment. Even with the economic downturn started in 2015, revenue in the beer segment continued to advance, influenced mainly by an improved mix with more premium and super-premium offerings, and craft beers (see Exhibit 6). Inflation-adjusted retail price per liter sold in Brazil went up to BRL10.9/liter in 2017 from BRL6.7/liter in 2003. The volume drop corresponds to lower sales of mainstream beers, a movement which should reverse as the job market evolves and disposable income increases.

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 for its profitability. The long-term outlook for the Brazilian beverage segment remains positive, given the low penetration rates of alcoholic beverage consumption and the long-term outlook for higher average disposable income.

Sound margins and healthy credit metrics

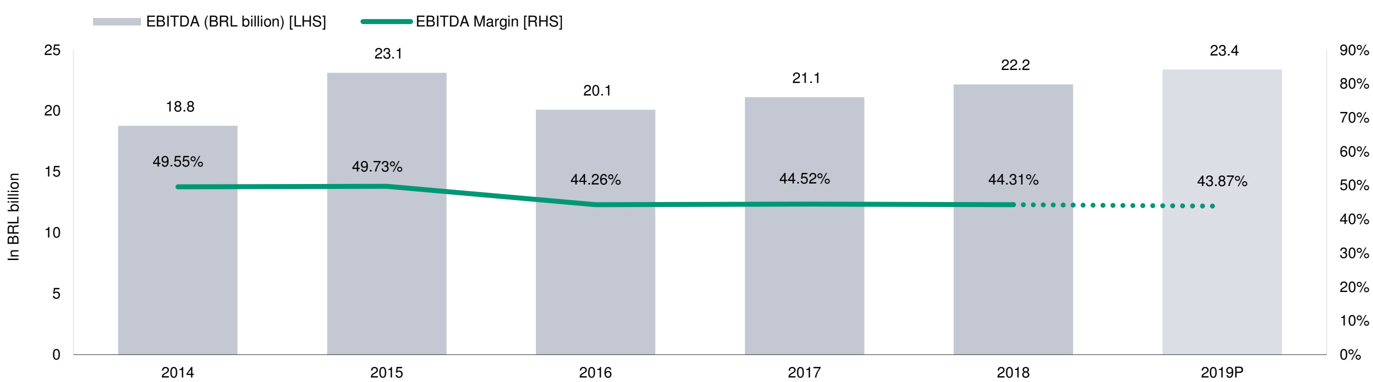
Despite the volatility in commodity-like input costs, Ambev has been cost efficient over time, reporting relatively stable operating margins. The performance is mainly because of (1) the company's ability to pass through costs to the final consumer, (2) the strictly established internal processes and cost-control initiatives, and (3) its ability to fully hedge its raw material needs 12 months ahead, consequently avoiding sharp input price spikes.

In 2019, we expect costs to be strained , specially by aluminum, barley and foreign-exchange hedges. Although we expect volume and revenue per hectoliter to increase, the unitary costs will drive gross margin down between 2018 and 2019 by at least one basis point to 61.3%.

In 2018, Ambev posted an adjusted EBITDA margin of 44.3% and an adjusted leverage ratio of 0.3x in 2018. We expect EBITDA margin to remain at the same level, with higher volumes, helping dilute some of the fixed costs.

Exhibit 6

EBITDA grows on higher volume, but margins remain strained in 2019 because of commodities and foreign-exchange hedges



Sources: Ambev S.A.'s financial statements, Moody's Investors Service

Enhanced positions 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. Although this strategy has increased Ambev's footprint in the region, Brazil continues to be Ambev's largest market, representing 53% and 56% of revenue and EBITDA, respectively, for the full-year 2018. In December 2016, in a share swap, Ambev transferred its operations in Colombia, Peru and Ecuador to ABI and received in exchange the operations of SABMiller in Panama. The swap led to an increase of 27% in Ambev´s Caribbean volume. Currently, the greatest challenge in the region is the Argentinean market, which comprises half of Latin South Segment sales. With high inflationary pressures and weak consumer environment, volume has dropped. But the portfolio of brands in the country remains robust, with Brahma as the number one beer and Quilmes number two, and additions of more high-end brands. Despite the inflationary pressures, Ambev is able to pass through most of the cost increases with some delay.

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 the Caribbean, with leading positions (number one or number two company in the market) 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 volume expansion, which contribute to an overall stable operating performance.

High dividend payout to ABI

Ambev is a public company, with shares traded on 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 among IIBV, AmBrew and Fundação Zerrener. Fundação Zerrener holds 9.9% of Ambev's voting shares.

Ambev is a key subsidiary of ABI, having historically accounted for around 30% and 45% of its consolidated revenue and EBITDA, respectively, and representing an important source of funding to its parent, through historically high dividend distributions (BRL8.5 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 to the speculative-grade territory. Debt/EBITDA for ABI was 5.1x (Moody's-adjusted) as of the end of December 2018. We expect ABI's leverage to remain high for the next two years, approaching 4x by 2020. Accordingly, we expect Ambev's dividend payments to ABI to remain high.

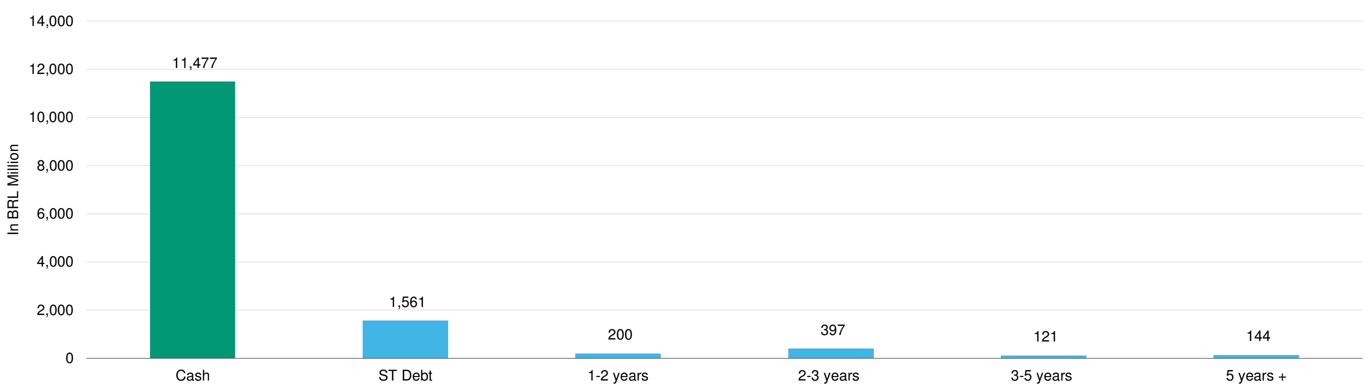
Ambev's rating is above Brazil's government bond ratings

Ambev's Baa3 foreign-currency rating is 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 illustrated by its exceptionally strong credit metrics, ample liquidity, limited reliance on the local banking system for funding, significant cash generation outside Brazil, which is sufficient to service the company's small foreign-currency debt, and importance to the 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 2018, its cash and equivalents amounted to BRL11.5 billion, enough to cover its reported short-term debt by 7.3x.

Exhibit 7
Debt amortization schedule
As of December 2018



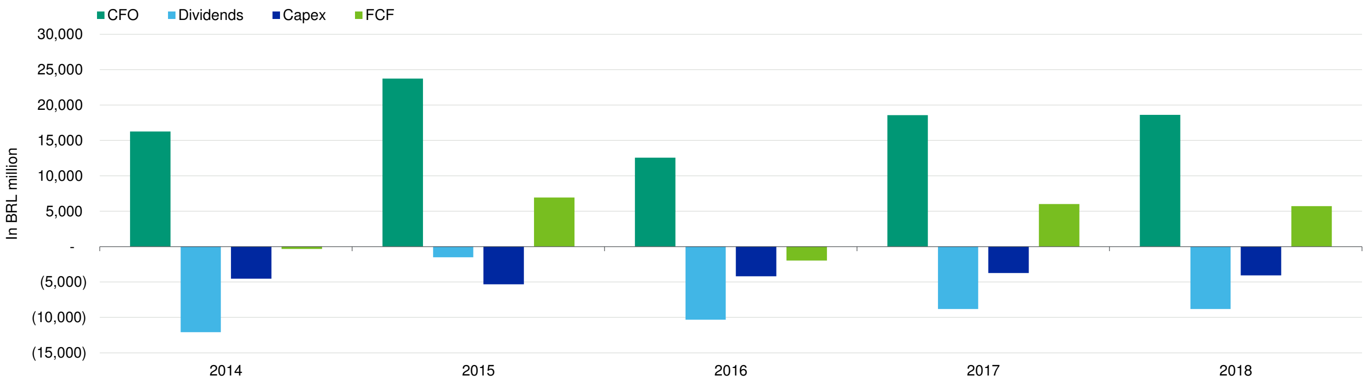
Sources: Ambev S.A.'s financial statements, Moody's Investors Service

Ambev's solid liquidity is further supported by its robust cash from operations, which amounted to BRL18.6 billion for full-year 2018, and when added to its cash position, was more than enough to meet its capital spending needs of BRL4.1 billion and dividend payments of BRL8.8 billion for the same period.

Exhibit 8

Ambev´s metrics are supported by a robust cash flow, enough to meet capital spending needs and dividends

In BRL millions



Sources: Ambev S.A.'s financial statements, Moody's Investors Service

Methodology and scorecard

Ambev's grid-indicated rating under our Global Alcoholic Beverage Industry rating methodology maps to A2, four 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 9

Rating factors

Ambev S.A.

Alcoholic Beverage Industry Grid [1][2]	Current FY 12/31/2018		Moody's 12-18 Month Forward View As of 3/25/2019 [3]	
Factor 1 : Scale & Diversification (34%)	**Measure**	**Score**	**Measure**	**Score**
a) Sales (USD Billion)	$13.8	Baa	$14 - $16	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)	35.8%	Aa	35% - 37%	Aa
Factor 3 : Financial Policy (14%)				
a) Financial Policy	A	A	A	A
Factor 4 : Leverage and Coverage (27%)				
a) RCF / Net Debt	-202.8%	Aaa	--	Aaa
b) EBIT / Interest Expense	11.5x	A	11x - 14x	A
c) Debt / EBITDA	0.3x	Aaa	0.2x - 0.3x	Aaa
Rating:				
a) Indicated Rating from Grid		A2		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 12/31/2018(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 10

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	Baa1
Bkd Senior Unsecured	Baa1
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

Appendix

Exhibit 11

Peer snapshot

Ambev S.A.

	Ambev S.A. Baa3 Stable			Carlsberg Breweries A/S Baa2 Stable			Coca-Cola FEMSA, S.A.B. de A2 Stable			Kirin Holdings Company, Limi A3 Stable			Heineken N.V. Baa1 Stable		
(in USD millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-16	FYE Dec-17	FYE Dec-18
Revenue	$13,146	$15,004	$13,837	$9,305	$9,213	$9,903	$9,534	$10,804	$10,727	$14,361	$14,040		$23,006	$24,415	$26,536
EBITDA	$5,768	$6,620	$6,111	$1,944	$2,100	$2,162	$1,867	$2,161	$2,185	$2,540	$2,594		$5,308	$5,798	$6,132
Total Debt	$2,533	$2,034	$1,803	$5,511	$5,298	$5,307	$4,592	$4,615	$5,181	$6,726	$5,312		$18,190	$21,890	$20,362
Cash & Cash Equiv.	$2,507	$3,125	$2,961	$497	$558	$856	$509	$959	$988	$570	$1,428		$3,201	$2,932	$3,319
EBITA Margin	36.8%	36.1%	35.8%	14.0%	16.0%	15.8%	14.7%	14.4%	14.8%	13.8%	14.7%		16.2%	16.9%	16.6%
EBIT / Int. Exp.	15.1x	15.8x	11.5x	4.1x	7.5x	9.1x	5.9x	6.0x	5.7x	17.6x	21.2x		6.0x	5.7x	5.3x
Debt / EBITDA	0.4x	0.3x	0.3x	3.0x	2.4x	2.5x	2.7x	2.2x	2.3x	2.8x	2.1x		3.6x	3.6x	3.4x
RCF / Net Debt	9810.0%	-158.3%	-202.8%	19.6%	28.0%	28.6%	16.6%	34.7%	31.3%	25.0%	43.9%		20.5%	19.8%	20.1%
FCF / Debt	-23.6%	89.4%	82.2%	12.7%	18.1%	15.6%	9.9%	8.6%	0.4%	11.4%	14.5%		5.2%	6.0%	7.4%

All figures & ratios calculated using Moody's estimates & standard adjustments. As of the most recently published last 12 month financial results. FYE = Financial year-end. LTM = Last 12 Months.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted debt breakdown

Ambev S.A.

(in USD Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	LTM Ending Dec-18
As Reported Debt	**1,231.7**	**1,023.9**	**910.5**	**1,658.0**	**770.2**	**625.1**
Pensions	2,257.4	661.0	561.6	656.8	696.6	604.7
Operating Leases	110.3	49.1	44.5	40.0	543.3	454.2
Non-Standard Adjustments	422.8	739.5	1,220.3	178.2	24.3	118.5
Moody's-Adjusted Debt	**4,022.2**	**2,473.4**	**2,736.9**	**2,533.0**	**2,034.5**	**1,802.5**

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

Exhibit 13

Moody's-adjusted EBITDA Breakdown

Ambev S.A.

(in USD Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	LTM Ending Dec-18
As Reported EBITDA	**7,980.8**	**7,683.7**	**6,443.7**	**5,372.4**	**5,877.5**	**5,216.9**
Pensions	30.5	1.7	0.7	0.9	-0.2	-1.0
Operating Leases	30.3	18.5	17.9	12.5	188.2	161.6
Unusual	203.0	293.5	580.5	380.8	553.3	733.4
Non-Standard Adjustments	0.0	-7.4	-0.9	1.4	1.0	-0.3
Moody's-Adjusted EBITDA	**8,244.6**	**7,990.1**	**7,041.9**	**5,768.1**	**6,619.8**	**6,110.6**

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

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