

BevCo Lux Sarl

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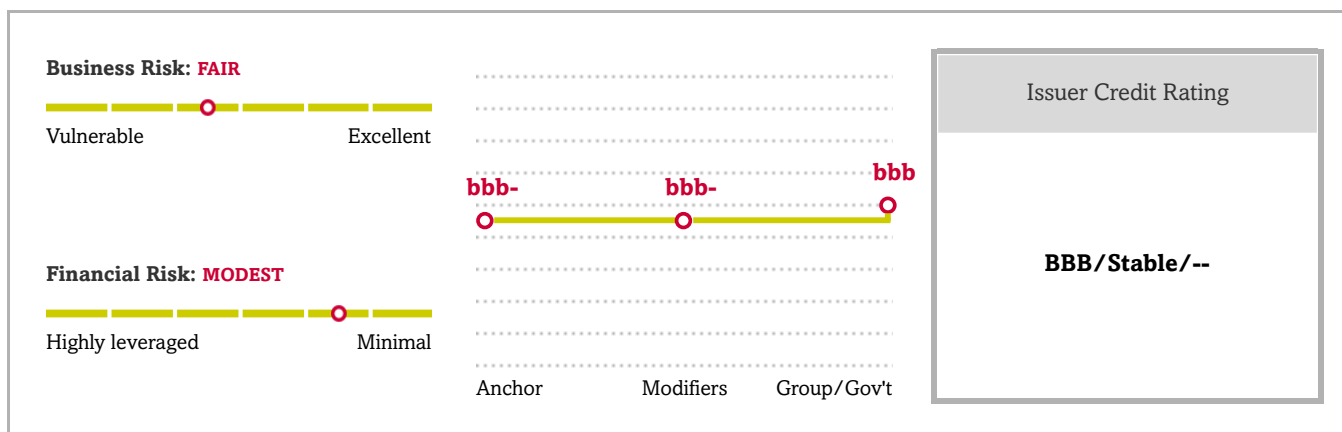
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BevCo Lux Sarl



Credit Highlights

Overview	
Key strengths	Key risks
High credit rating on the key asset in the portfolio, Anheuser-Busch InBev SA/NV (AB InBev; BBB+/Negative), and average ownership interest of portfolio companies below 10%.	Limited diversification of the investment portfolio, which is dominated by AB InBev. It comprises about 70% of the portfolio value.
Fully owned and controlled by Aguila Ltd., for which we assess the group credit profile as 'bbb'.	Relatively illiquid portfolio given that more than 90% of shares in AB InBev have restrictions until October 2021, and the group has used about 45% of its stake as collateral for its undrawn revolving credit facilities (RCFs).
Strong liquidity, with ample undrawn committed credit facilities, of which the bulk (€1.8 billion) is long term, and more than enough to cover the €600 million still outstanding under the bond maturing 2023.	Limited diversity and the effects of the pandemic squeezed loan-to-value (LTV) ratio headroom.

In 2020, BevCo Lux Sarl's LTV ratio remained below 20%, despite the pandemic-inspired drop in AB InBev's share price. Because AB InBev represents 70% of BevCo's portfolio by value, the LTV ratio has remained somewhat volatile. During the first half of 2020, AB InBev's share price fell significantly, causing BevCo's adjusted LTV ratio, including discount for lack of marketability (DLOM), to rise to 16.3% by June 30, 2020, (14.0 excluding DLOM), limiting the headroom under the 20% threshold outlined in company's financial policy. That said, at the start of the pandemic BevCo had plenty of headroom under its LTV policy. During 2019, its debt reductions improved the group's LTV ratio to 9.8% including DLOM (8.9% excluding DLOM) by year end from 14.8% including DLOM (12.7% excluding DLOM) a year earlier.

AB InBev's share price recovered during the second half of 2020 as the company recovered from the shock of the pandemic. We estimate that LTV was about 13%-15% at the end of 2020, depending on cash distribution levels within the group, which have not yet been disclosed. The group has not altered its financial policy and we expect management to continue to manage the LTV ratio at levels below 20% for BevCo and 15% for Aguila.

Chart 1

After A Sharp Decline In Early 2020, AB InBev's Share Price Recovered In The Second Half

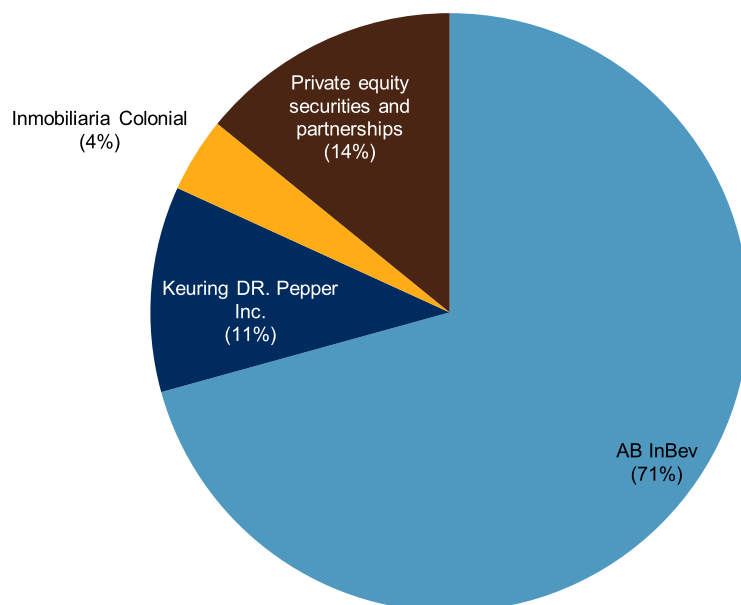


Source: S&P Global Ratings.

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AB InBev waived its dividend payment because of the pandemic, which will constrain BevCo's cash flow adequacy in the near term. AB InBev usually pays an interim dividend payment in November. We estimate that the lower dividend income caused BevCo's cash flow adequacy to fall to about 3x-4x in 2020, from about 9x in 2019. BevCo received total cash dividends of about €57 million in first half of 2020, down from €181 million in first half 2019 (€272 million full year 2019). AB InBev has proposed paying a dividend of €0.5 per share in the first half of 2021, which is the same level it paid in the first half of 2020. We assume that its second-half dividend payment will depend on whether performance improves.

For 2021, we expect BevCo to see dividend inflows of about €80 million-€90 million. This is based on an AB InBev dividend of at least €51 million, and a proposed dividend from Keuring DR. Pepper Inc. (KDP) of \$0.75 per share, which implies that BevCo would receive about \$17 million from KDP. Although total dividend inflows are well below the pre-pandemic norm, we note that dividend income more than covers interest expense and operating costs (which are fairly low at about €30 million a year). To preserve its cash, we understand that BevCo paid no dividends in 2020. We do not expect dividend distributions to its parent Aguila in 2021 to exceed its dividend inflows and any realized asset sales.

Chart 2**BevCo Lux Sarl's Portfolio Is Dominated By Anheuser-Busch InBev SA/NV**
As of June 2020

Source: S&P Global Ratings.

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Our rating on BevCo is sustained by Aguila, which is more diversified and less leveraged. BevCo is fully owned and controlled by Aguila, which has a group credit profile of 'bbb'. BevCo's financial policy is a consequence of Aguila's group level financial policy, and we regard management at the Aguila group level as very committed to its financial policy of a maximum LTV ratio of 15%. LTV at Aguila stood at about 11.7%, including DLOM on Sept. 30, 2020. Although this is higher than the 9.7% reported on Dec. 31, 2019, it still offers the group some headroom under its financial policy. We view BevCo as a core subsidiary of Aguila; it is integral to Aguila's future strategy and is the entity through which most of its investments are carried out. BevCo holds about 65% of group assets—including the largest asset, the 5.25% stake in AB InBev—and we believe that BevCo will remain integral to Aguila's identity, investment, and financing strategy.

Outlook: Stable

The stable outlook on BevCo indicates that the maximum LTV ratio for Aguila is unlikely to materially exceed 15%, and should remain below 20% for BevCo. In our opinion, management would take measures to maintain LTV at these levels, if necessary. We expect that BevCo's investment portfolio will retain its large exposure to AB InBev over the medium term. We also assume that BevCo will remain the largest and most important entity within the Aguila group, implying support to BevCo under all foreseeable circumstances.

Downside scenario

We could downgrade BevCo if the LTV ratio came under pressure. This could occur if there were a sharp downward correction in the equity markets and the company took no measures to prevent an increase in the LTV ratio, contrary to our expectations. An LTV ratio above 15% for the Aguila group or above 20% for BevCo for more than a few months would likely undermine the rating, as would raising debt to fund shareholder-friendly measures. We think the latter scenario is highly unlikely in the near term.

Upside scenario

We do not expect to raise the rating within the next 12-24 months. However, we could do so if management meaningfully improves diversification in BevCo's investment portfolio, while controlling the LTV ratio. Upside would likely also depend on improved portfolio liquidity, namely through the lapse of the restrictions on shares in AB InBev, which is slated for October 2021, and a material reduction in pledged shares. Given the group structure, rating upside would also hinge on the availability of audited financial reports at the Aguila level.

Our Base-Case Scenario**Assumptions**

- A prudent investment policy and proactive management should help BevCo maintain its LTV ratio well below 20% over the coming two years.
- Estimated dividends inflow of about €80 million-€90 million for 2020, and at least €80 million in 2021.
- Low operating expenses of €2 million-€3 million.
- Interest expenses around €27 million-€30 million.
- No major acquisitions or disposals.
- No dividend payments from BevCo to Aguila in 2020. Any dividend payment in 2021 will likely depend on BevCo's dividend inflow and any asset monetizations.

Key metrics

BevCo Lux Sarl--Key Metrics*

	--Fiscal year ended Dec. 31--			
	2018a	2019a	2020e	2021f
LTV inc. DLOM (%)	14.8	9.8	<20.0	<20.0
LTV exc. DLOM (%)	12.7	8.9	<20.0	<20.0
Cash flow Adequacy (x)	9.2	9.2	3-4	3-4

A--Actual. E--Estimate. LTV--Loan to value. DLOM--Discount for lack of marketability. *We treat the million euros of preferred equity certificates (PECs), which are subordinated to all outstanding debt, as equity. The PECs have a long-dated maturity profile and, although there is an optional redemption, we believe that the issuer at any time could extend the maturity date of the non-common equity financing to at least 30 days after all the other debt matures.

Company Description

BevCo is an investment holding company ultimately owned by Santo Domingo Group. Investments consist of equity investment and private equity securities and partnerships. The group has equity investments in AB InBev, Inmobiliaria Colonial, and KDP. Furthermore, the group has private equity securities and partnerships in KKR Sigma Co-Invest L.P., 3G KraftHeinz Company Holdings L.P., 3G Special Situations Fund IV L.P., and Acorn Holdings B.V.

In June 2020, BevCo's portfolio value of about €5.3 billion (inc. DLOM) included:

- AB InBev (BBB+/Negative): The world's largest brewing company comprising eight of the 10 most valuable beer brands worldwide. BevCo has a 5.25% stake in AB InBev and the asset represents about 70% of the portfolio.
- Inmobiliaria Colonial (BBB+/Stable): A eurozone real estate company that has over 1.9 million square meters of primarily central business district office space in Madrid, Paris, and Barcelona. Total portfolio value is about €12.1 billion and market capitalization is about €4.0 billion. BevCo owns 5.7% in Inmobiliaria Colonial and the asset represents about 4% of the portfolio.
- KDP (BBB/Stable): A leading producer of hot and cold beverages in the U.S. BevCo has a 1.94% direct equity stake in KDP and the asset represents about 12% of the portfolio.
- Acorn Holdings: The primary assets are JDE Peet's N.V. (BB+/Positive), the world's largest pure-play fast-moving consumer goods coffee company, and KDP (BBB/Stable), the leading single serve coffee platform in the U.S.
- Upfield (B+/Negative/--): A global plant-based food spread business. The asset is held via a private investment.
- The Kraft Heinz Company (BB+/Stable): The fifth-largest food and beverage company in the world, held via a 3G Capital co-investment partnership.

Peer Comparison

Table 1

BevCo Lux Sarl--Peer Comparison				
	BevCo Lux Sarl	JAB Holding Co. S.a r.l.	EXOR N.V.	Wendel
Rating as of April 1, 2021	BBB/Stable/--	BBB+/Stable/--	BBB+/Stable/A-2	BBB/Stable/A-2
Investment position	Fair	Satisfactory	Satisfactory	Fair

Table 1

BevCo Lux Sarl--Peer Comparison (cont.)				
	June 30, 2020	Oct. 17, 2020	Sep. 30, 2020	Sep. 30, 2020
Portfolio size (adjusted; mil. \$)	6,442	26,273	27,670	8,189
Weight of listed assets (%)	83.0	82.0	66.1	45.1
Largest asset (% of portfolio)	68.0	52.1	30.9	45.1
Three largest assets (% of portfolio)	92.6	82.0	81.2	75.9
Three largest assets	ABI, Acorn, KDP	Kuerig Dr Pepper, Jacobs Douwe Egberts Peet's, Pret Panera	Ferrari, PartnerRe, Stellantis	Bureau Veritas, Stahl and I H S
Financial risk profile	Modest	Intermediate	Modest	Modest
Loan to value ceiling (%)	20.0	25.0	20.0	20.0
Loan to value (%)	16.3 (14.0% excl. DLOM)	27.6	10.4	9.6

We rate few other investment holding companies that have the same concentration. The high concentration and restricted nature of the stake in AB InBev renders our view of BevCo's investment position as weaker than that of peers, such as JAB Holding and Exor. We assess the average credit profile of the portfolio as 'BBB+', which is higher than the investment holding companies we rate at 'BBB' or 'BBB-'.

Business Risk: Fair

Solid portfolio creditworthiness, with average credit worthiness positioned in the 'bbb+' category. High rated investees AB InBev (BBB+/Negative), KDP (BBB/Stable), and Inmobiliaria Colonial (BBB+/Stable) support BevCo's good credit quality.

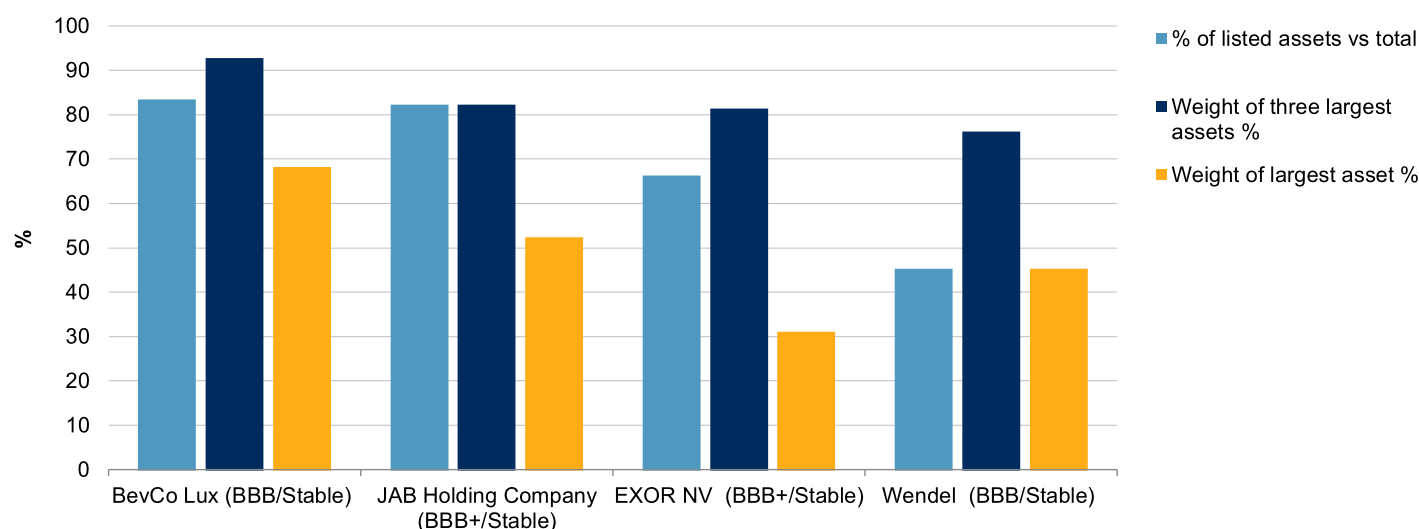
Share pledges and lock-up period on AB InBev and KDP's shares are limiting our view of BevCo portfolio liquidity.

Despite AB InBev being a publicly listed company, we view BevCo's portfolio as relatively illiquid, due to the restrictive nature of the AB InBev shares, which cannot be freely disposed until October 2021. On a positive note, the AB InBev restriction elapses in the second half of 2021, improving the portfolio liquidity. That said, about 45% of the investment in AB InBev has been pledged as collateral for BevCo's committed borrowing facilities and require lender's consent before selling. These facilities are currently undrawn, but the pledge restricts management's willingness to undertake a major rotation or further diversification of the portfolio.

In addition, over 2020, Quercus, which is the subsidiary holding a minority stake in Acorn, redeemed shares tracking the underlying value of KDP into direct shares of KDP. The direct shares were subsequently distributed in kind to BevCo. Through these transactions, BevCo gained a direct equity investment in KDP (fair value of €611 million), but the shares are also subject to rolling lock-up periods until June 2021, some of which have already lapsed.

Chart 3

Bevco's Portfolio Is More Concentrated Than Its Peers



Source: S&P Global Ratings.

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Our assessment on Aguila is underpinned by a higher level of diversity compared with BevCo. Aguila's investment position is in line with other investment holding companies that have satisfactory business risk profiles, albeit at the lower end. Aguila has net assets that exceed its investment in BevCo; AB InBev constituted about 46% of its assets as per Sept. 30, 2020, versus about 70% for BevCo on June 30, 2020. The three largest assets constituted about 58% of Aguila's portfolio, versus 96% for BevCo. Besides the stake in AB InBev, the portfolio is highly diversified because all investments are typically below \$1 billion in value.

Financial Risk: Modest

BevCo's low leverage ultimately sustains its position. To calculate LTV, we use the fair market value for AB InBev and KDP, including the discount for lack of marketability (DLOM). To arrive at the fair market value of investment in the restricted shares of AB InBev and KDP, the group uses a discount on the trading price of the unrestricted shares arrived at using the Black-Scholes Option Pricing Model. The DLOM was €871 million on June 30, 2020. At June 30, 2020, the market value of BevCo's 5.09% (5.09% includes shares held in treasury; this is equivalent to 5.25% excluding shares held in treasury) stake in AB InBev was about €3.72 billion, including a DLOM of €792 million. We understand the DLOM will gradually decrease until the restriction on these shares ceases in October 2021. Excluding the DLOM, our LTV calculation for June 30, 2020 stood at about 14.4%.

BevCo successfully issued a €500 million seven-year Eurobond in September 2020, reducing its maturity concentration risk. BevCo aimed to buy up to €300 million of the €800 million bonds maturing in 2023 through its September 2020 issue. Some bondholders (also material buyers in the new issue) elected not to sell, resulting in tenders of €200 million. We understand that the remaining €300 million of the bond proceeds were kept as cash within the group. The remaining €600 million of the 2023 bonds will still mature in 2023. We view management as proactive and expect the bond to be refinanced well ahead its maturity. The group also has full coverage from its undrawn credit facility

capacity, of which €1.15 billion will come due in 2024.

BevCo is subject to margin calls on its revolving credit facilities for which AB InBev shares have been pledged, although these are undrawn. The margin call LTV ratios are 60%-65% and the secured accounts places an obligation on the group to provide securities or cash whenever margin-calls are issued by financial institutions to secure the obligations of the group. BevCo uses these loans as back-up facilities, and generally does not draw down on them to fund its investments. The group had €150 million drawn under these facilities on June 30, 2020. The drawdown was done as a precaution during the pandemic, and by year-end 2020, €100 million had been repaid, leaving a balance of €50 million drawn. To date, the group has received no margin-call notices. In case of a margin call, we understand that BevCo would have multiple options to restore the LTV, including drawing down on other facilities to rebalance loans and collateral needs, deposit cash or provide additional security collateral, or prepay part of the drawdown. The fair value of the pledged AB InBev shares was about €1.7 billion on June 30, 2020. With the applicable margin calls, we view the availability under the €1.8 billion committed credit facilities as limited to about €1.0 billion, per the previous date. The sizable back-up facilities nevertheless continue to support BevCo's strong liquidity profile, in our view.

Financial summary

Table 2

Bevco Lux S.a.r.l. -- Financial Summary		
(Mil. €)	2019	2018
Portfolio as adjusted**	8,464	6,638
Net debt as adjusted*	831	979
Loan to value inc. DLOM (%)	9.8	14.8
Dividend and fees Income	274	296
Cash flow adequacy	9.2	9.2
Dividend paid	242	275

*We treat the €175 million of preferred equity certificates (PECs), which are subordinated to all outstanding debt, as equity. The PECs have a long-dated maturity profile and, although there is an optional redemption, we believe that the issuer at any time could extend the maturity date of the non-common equity financing to at least 30 days after all the other debt matures. ** Including discount for lack of marketability (DLOM).

Liquidity: Strong

We assess BevCo's liquidity as strong, with a ratio of sources to uses of over 35x over the 12 months from June 2020, and the subsequent 12 months, even if we stress dividend inflow by 30%. The company has very limited short-term debt and sizable undrawn RCFs. The first major debt repayment is in 2023, when the €600 million bond is due. We expect management will address the maturity well in advance.

We believe BevCo's relationships with core banks are well established, and that it has a high standing in the credit markets, as demonstrated by its recent bond issuance. We limit our liquidity assessment to strong, even though the high coverage ratio could warrant a higher assessment, given BevCo's heavy dependence on the financial performance of its main investee, AB InBev, which we see as a key restraint, especially considering the AB InBev share pledges and related margin-call ratios, which could limit availability under the RCFs.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Cash and cash equivalent of €58.3 million as of June 	<ul style="list-style-type: none"> Limited short-term debt (€6.5 million, including

30, 2020.

- €1.7 billion undrawn RCFs on June 30, 2020 (we include only committed facilities maturing beyond 12 months. The key facility amounts to €850 million and is due 2024). We view the availability under the RCFs as of June 30, 2020 to be about €1.0 billion, limited to comply with the margin call ratios.
- Dividend and interest income over the next year in the range of €70 million-€80 million.

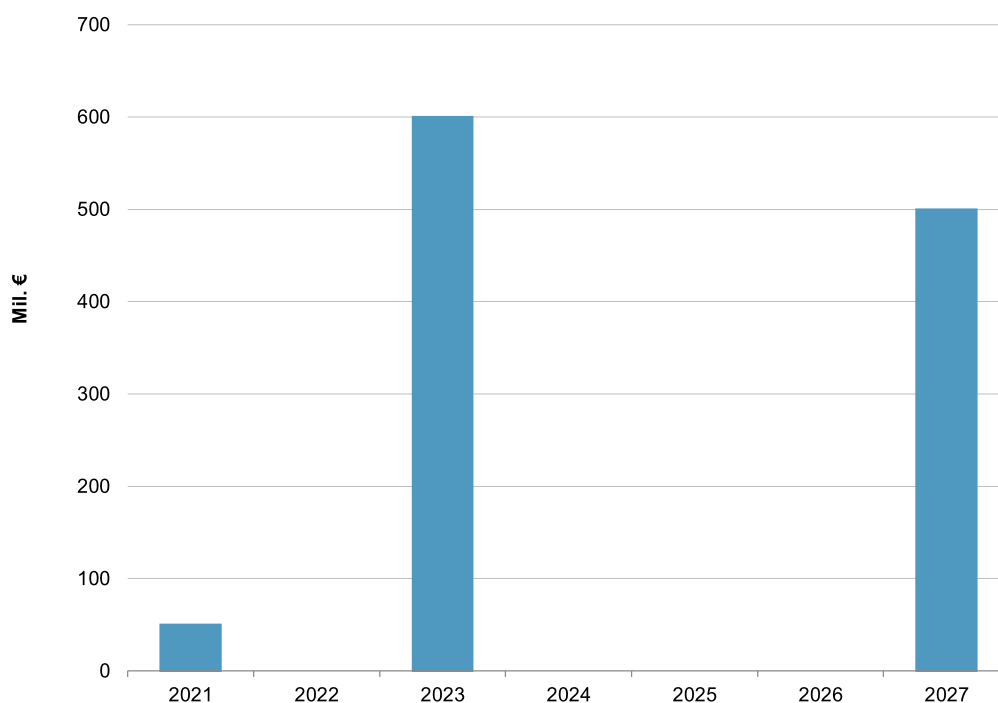
interest on debt securities over the next year), as of June 30, 2020.

- Interest and operating expense of €30 million-€35 million.
- No dividend payment in 2020.

Debt maturities

Chart 4

Bevco's Debt Maturity Profile As Of December 2020



Source: S&P Global Ratings.

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Group Influence

BevCo is fully owned by Aguila (group credit profile 'bbb').

We consider BevCo to be a core subsidiary of Aguila. BevCo was incorporated to carry out the group's investment and financing strategy and is therefore essential to the group's strategy. We equalize our issuer credit rating on BevCo with Aguila's group credit profile.

Issue Ratings - Subordination Risk Analysis

Our subordination risk analysis of BevCo's capital structure looks at potential structural subordination arising at the unsecured level from the existence of priority secured bank debt.

Capital structure

BevCo issued its first unsecured bond of €800 million on Feb. 2018, and the second €500 million in September 2020. The proceeds were used to repay €200 million of the first bond. The bonds constitute most of BevCo's outstanding third-party debt. On June 30, 2020, the group's capital structure included €100 million of secured debt, which was about 10% of the group's total outstanding third-party debt.

Analytical conclusions

We rate the debt 'BBB', the same as the issuer credit rating on BevCo, because no significant elements of subordination risk are present in the capital structure. This is also supported by the group's low leverage and our view that it has modest financial risk.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/--

Business risk: Fair

- **Country risk:** Very low
- **Industry risk:** Intermediate
- **Competitive position:** Fair

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb-

Modifiers

- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Group credit profile:** bbb

- **Entity status within group:** Core (+1 notch from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+ / a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+ / a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 1, 2021)*

BevCo Lux Sarl

Issuer Credit Rating BBB/Stable/--
 Senior Unsecured BBB

Issuer Credit Ratings History

10-Jul-2018 BBB/Stable/--
 23-Jan-2018 BBB-/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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