Research Update:

# Outlook On BevCo Lux Revised To Negative On Higher Group Leverage And Shareholder Distributions; 'BBB' Ratings Affirmed

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## Rating Action Overview

- We anticipate that Luxembourg-based investment holding company BevCo Lux S.a.r.l. (BevCo) will distribute close to €500 million of capital redemption and dividend distributions to its parent company Aguila Ltd. in 2023, after the full disposal of its stake in JDE Peet's N.V. (JDEP) and partial divestment of its position in Keurig Dr Pepper Inc. (KDP).
- We also anticipate that BevCo will increase its investment in diversified private assets to close to €1 billion by year-end 2023 from about €600 million at Dec. 31, 2022, bringing its overall pro-forma loan to value (LTV) to our estimate of about 18%, and indicating very limited headroom under our 20% maximum threshold for the rating.
- We also estimate that Aguila's LTV was 15.3% as of Sept. 30, 2023, slightly above our 15% rating threshold, constrained by limited asset value growth and higher-than-anticipated distributions to Aguila's owners.
- We therefore revised our outlook on BevCo to negative from stable and affirmed our 'BBB' long-term issuer credit rating and issue rating on its unsecured debt.
- The negative outlook reflects that we could downgrade BevCo if it does not restore stronger LTV leeway compared with our 20% limit, while Aguila's LTV stays close to or above 15% in the next six-to 18 months.

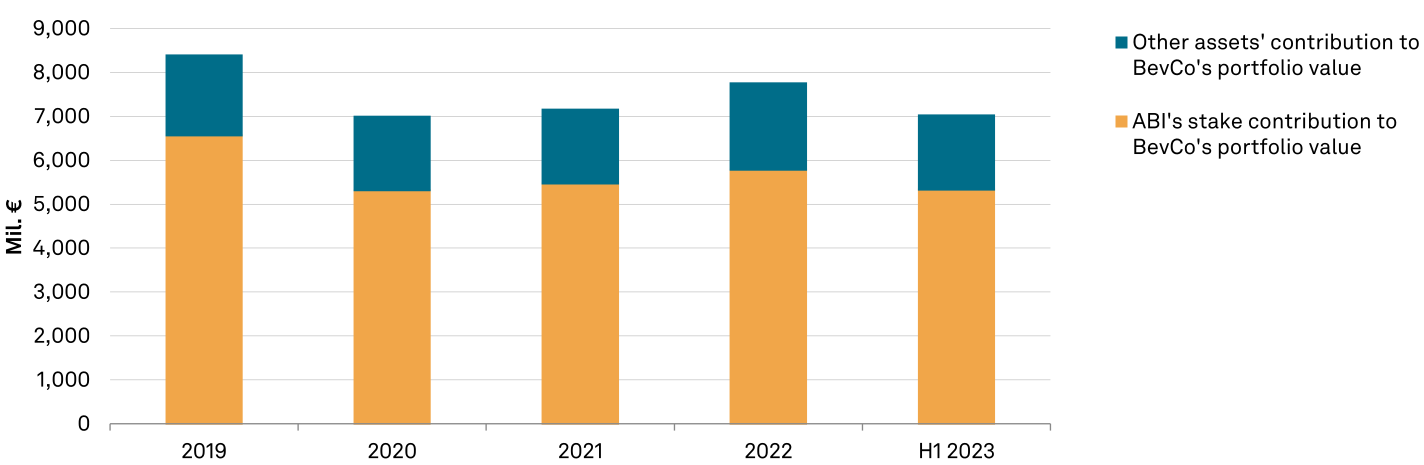
## Rating Action Rationale

**BevCo and its parent company Aguila have eroded their financial headroom.** We estimate that BevCo's LTV will reach about 18% pro forma its most recent portfolio changes and shareholder distributions, based on asset prices as of June 30, 2023. In addition, we calculate an LTV ratio of 15.3% at the Aguila level as of Sept. 30, 2023. In our view, this represents very limited headroom under our 20% maximum LTV threshold at BevCo's level for a potential decline in equity markets and asset prices, while the parent company's leverage is already above our maximum threshold that we view as commensurate with our rating. We note the very high reliance of the group's portfolio on Anheuser-Busch InBev S.A./N.V. (ABI)--which accounts for about 76% of BevCo's total gross asset value and 47% of Aguila's. As such, we believe that any downside pressure specific to ABI's share price could also result in BevCo's and Aguila's LTVs staying above our thresholds for a prolonged period if not compensated by some remedial actions on its debt position, such as asset disposals and, at the same time, lower shareholder distributions.

**BevCo's limited asset value growth and shareholder distributions constrain its financial headroom.** While BevCo's adjusted debt level has been broadly stable at €1.0 billion-€1.2 billion since 2018, we believe that its portfolio value creation has been muted over the same period. S&P Global Ratings' adjusted portfolio value reached about €7.0 billion at June 30, 2023, which is broadly in line with the levels achieved at year-end 2020 and 2021, and below the €7.7 billion of Dec. 31, 2022. In addition to ABI's share price staying below pre-pandemic levels of above €70 per share, we also attribute this modest asset growth to annual dividend and interest income remaining rather muted at €80 million-€100 million per year in the past three years, compared with €240 million-€280 million in 2018-2019. At the same time, BevCo maintained shareholder distributions in 2021 and 2022, with combined capital redemptions net of shareholder contributions of about €103 million and dividend payments of about €51 million in aggregate for both years. In our view, this year's expected acceleration in distributions to shareholders by BevCo--comprising close to €500 million of anticipated capital redemptions and €58 million of dividend payments--was not compensated by an increase in dividend and interest income (estimated at about €115 million for full-year 2023), nor a material increase in the asset values of JDEP and KDP positions. BevCo sold its stake in JDEP for €151 million and reduced its stake in KDP by €300 million year to date. Before the stake disposal, JDEP's share price traded at around €27 through the first half of 2023, or about 15% below its initial public offering price of €31.5. At the same time, KDP's share price is down about 8.5% year-to-date and has remained below its Dec. 31, 2022 price of about $35.7 throughout 2023.

Chart 1

**BevCo's portfolio value growth remains constrained by ABI's share price remaining below its 2019 level**




ABI--Anheuser-Busch InBev S.A./N.V. H1--First half. Source: BevCo's financial reports, S&P Global Ratings.

**The group is somewhat increasing its exposure to unlisted assets.** In addition to the JDEP's disposal and KDP's partial divestment, we estimate that BevCo will increase its investments in various private businesses to close to €1 billion by year-end 2023, from about €600 million as of Dec. 31, 2022 and about €200 million on June 30, 2022. We estimate this will result in the holding company's share of liquid assets declining closer to 85% at year-end 2023, and below the 95%-100% range it has historically maintained. At the same, the bulk of Aguila's assets, excluding BevCo's perimeter, are invested in private businesses, resulting in an overall group portfolio exposure to listed assets approaching 60%. Although private investments offer diversification and more uncorrelated return opportunities to traditional listed securities, we believe that they reduce portfolio liquidity and are typically associated with weaker creditworthiness and lower recurring dividend income prospects. Overall, the group's average asset credit quality remains strongly supported by ABI (A-/Stable/A-2), KDP (BBB/Stable/A-2), Inmobiliaria Colonial (BBB+/Stable/A-2), and Kraft Heinz Co. (BBB/Stable/--), but we estimate that further allocation to private securities could result in a shift to the lower end of the 'bbb' category, compared with the higher end currently.

**The group's financial policy framework could support deleveraging in 2024.** We understand that BevCo continues to set an LTV of 20% as the upper target of its financial policy, while Aguila sets it at 15%. Despite a gradual increase of Aguila's LTV toward 15% over the past few years, leverage has been maintained below these upper target levels before 2023 for both entities, which has historically supported the rating. In our view, remedial actions such as asset disposals and lower shareholder distributions could help the group restore leeway under the LTV ratio thresholds relatively swiftly. In addition to potential remedial actions, we note that a meaningful recovery in ABI's stock price could support the deleveraging. We estimate that ABI's current spot price in the €57-€58 range as of Dec. 20, 2023--improving from €50-€52 over the third quarter--implies a slightly lower LTV of 14.5% for Aguila and of 16.5% for BevCo, although it still translates in limited leeway compared with our rating thresholds.

**We continue to assess Aguila's credit profile at 'bbb', supporting our final rating on BevCo.** We still view parent company Aguila's creditworthiness as one notch higher than BevCo's 'bbb-' stand-alone credit profile due to its bigger and less concentrated investment portfolio as well as its financial policy commitment to keep its LTV below 15% through capital rotation cycles. That said, we believe that the current LTV ratio trailing above the 15% ceiling, and the higher exposure to private assets, represent downside risks for our assessment. We estimate that Aguila's total portfolio value is about 1.6x higher than that of BevCo, which reduces its reliance on ABI to around 47% as of Sept. 30, 2023, compared with about 76% for BevCo. The parent company's individual investments, excluding the stakes in ABI and KDP, are typically below $1 billion in value each and include several third-party public, private equity, and credit funds. As a result, we estimate that Aguila's top three assets represented about 60% of the total portfolio, against about 86% for BevCo. Aguila fully owns BevCo, which we view as a core subsidiary because it was incorporated to carry out the parent's investment and financing strategy, particularly for its European investments. We therefore believe BevCo is essential to the group's strategy and equalize our final issuer credit rating on BevCo with our group credit profile assessment of Aguila.

## Outlook

The negative outlook reflects BevCo's currently very limited leeway and the exhausted leeway of Aguila under their respective LTV rating thresholds and the potential that we could downgrade

BevCo in the next six to 18 months if it does not gradually improve its LTV ratios.

### Downside scenario

We could downgrade BevCo if it does not restore greater headroom under our 20% maximum threshold, while Aguila's LTV continues to remain close to 15%. A sharp deterioration in ABI's share price or new sizable shareholder distributions could result in accelerated rating pressure, however this is not our base case.

### Upside scenario

We could revise our outlook on BevCo to stable if it reduces its LTV well below 20% while Aguila's LTV is curbed comfortably below 15%. We estimate this could stem from asset disposals used to reduce its net debt position, lower shareholder distributions, or ABI's share price recovering more firmly.

## Company Description

BevCo is an investment holding company ultimately owned by the Santo Domingo family. Based on asset values as of June 30, 2023 and pro-forma the most recent capital allocation, we estimate its portfolio is worth about €7.0 billion. Main investments include:

- ABI: The world's largest brewing company with a portfolio of more than 500 beer brands worldwide including Budweiser, Stella Artois, and Corona. BevCo has a 5.2% stake in ABI and the asset represents about 75.6% of the pro-forma portfolio.
- Other publicly traded securities: Representing 10.7% of the pro-forma portfolio and including investments in KDP, a leading producer of hot and cold beverages in the U.S.; Inmobiliaria Colonial, Socimi, S.A., a eurozone real estate company primarily focusing in central business district office space in Madrid, Paris, and Barcelona and with total portfolio value of about €13 billion; and Kraft Heinz Co., one of the largest North American packaged food companies.
- Private equity securities: Comprised of various private investments representing about 13.7% of the pro-forma portfolio.

## Our Base-Case Scenario

### Assumptions

- Estimated annual dividends inflow and interest income of €110 million-€120 million in 2023, slightly declining to €100 million-€110 million in 2024 due to the JDEP and KDP divestments, compared with €91 million in 2022.
- Low annual operating expenses of €2.0 million-€4.0 million.
- Stable annual interest expenses of €20 million-€30 million in 2023-2024 from €26 million in 2022. All of BevCo's debt is at fixed rate, with no refinancing need prior to 2027.
- Portfolio rotation remaining marginal in 2024, with potential capital deployment being mainly opportunistic or to support the group's deleveraging efforts.

- Dividend payments to BevCo's direct shareholder increasing to €58 million in 2023 from €51 million. We assume a broadly stable payout for next year, with any increase likely depending on BevCo's dividend inflow or asset monetization.
- We do not assume any other material capital redemption in 2024 following our forecast for €500 million repurchased this year, €21 million in 2022, and €117.6 million in 2021. We anticipate that potential other share buybacks, if any, would be funded by asset sales or excess cash.
- Potential contributions of Aguila to BevCo via equity injection or the inter-company loan facility to ensure continued credit metrics management.

## Key metrics

### BevCo Lux S.a.r.l.--Key Metrics

| (Mil. €) | 2018a | 2019a | 2020a | 2021a | 2022a | 2023f | 2024f |
|---|---|---|---|---|---|---|---|
| LTV* | 14.8 | 9.8 | 14.6 | 16.5 | 14.1 | ~18 | <20.0 |
| Dividend and interest income** | 294 | 273 | 90 | 81 | 91 | 110-120 | 100-110 |
| Cash flow adequacy (x) | 9.1 | 9.2 | 2.4 | 1.7 | 3.2 | 3-4 | 3-4 |

All figures adjusted by S&P Global Ratings. *LTV ratios for 2018-2020 include a discount for lack of marketability (DLOM) of ABI's restricted shares. The DLOM ceased to apply in October 2021, when the restrictions on the shares ended. We exclude loans granted to Aguila from portfolio value (€67 million as of Jun., 2023). We treat the €176 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. **Dividend and interest income calculated on a cash basis. a--Actual. f--forecast. LTV--Loan to value. DLOM--Discount for lack of marketability.

## Liquidity

We assess BevCo's liquidity as strong, with a ratio of sources to uses of about 9.5x over the 12 months from June 30, 2022, and 7.5x over the subsequent 12 months. The company has very limited short-term debt and sizable undrawn revolving credit facilities (RCFs). The first major debt repayment is in 2027, when the €500 million unsecured bond is due.

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

Principal liquidity sources for the 12 months started July 1, 2023:

- Cash balance of €8 million.
- About €720 million available under the secured and unsecured RCFs maturing beyond 12 months, including our downward adjustment to the secured facilities' availability.
- Annual dividend and interest income of €110 million-€120 million.

Principal liquidity uses for the same period:

- No debt maturities over the next 24 months.
- Operating expenses of about €2 million-€4 million per year.
- Annual interest expense of €20 million-€30 million per year.
- Annual dividend payment to BevCo's direct shareholder of €55 million-€60 million.

## Environmental, Social, And Governance

We regard governance factors as moderately negative for BevCo's credit profile, reflecting the group's private ownership and lower breadth and independency of its board than its publicly listed peers. We believe this can translate in more lumpy shareholder distributions and leverage at both the BevCo and Aguila levels. In addition, in our view, BevCos' publicly listed peers report their financial more transparently (mainly due to the absence of consolidated financial accounts at Aguila), and have a less complex group structure. As a result, we revised our management and governance modifier to fair from satisfactory.

Environmental and social factors are an overall neutral consideration in our credit rating analysis of BevCo. This mirrors our view that brewing company ABI, which represents about 76% of BevCo's portfolio value, is exposed to social factors that are neutral and in line with other food and beverage companies. We acknowledge that the alcoholic beverage sector is regulated, with possible industry risks associated with government interventions, including restricting sales, marketing practices, and higher taxes. Alcohol abuse and underage consumption are additional social concerns. ABI is implementing initiatives, such as educational programs and a marketing code of conduct, to address these issues.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

BevCo's capital structure mainly comprises a €500 million unsecured bond due September 2027 and a €600 million unsecured bond due January 2030. As of June 30, 2023, the group has drawn about €85 million under its unsecured RCFs at the parent level, to which BevCo is a guarantor, and none under its secured RCFs.

### Analytical conclusions

We rate the unsecured bonds 'BBB', in line with the long-term 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 of modest financial risk.

## Ratings Score Snapshot

| Issuer Credit Rating | BBB/Negative/-- |
|---|---|
| Business risk: | Fair |

| Issuer Credit Rating | BBB/Negative/-- |
|---|---|
| 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 | Fair (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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Related Research

- Global Macro Update: 2024 Is All About The Landing, Nov. 29, 2023

- Inmobiliaria Colonial's Rental Growth And Resilient Letting Activity Counterbalance Negative Valuation Expectations, Nov. 14, 2023
- Keurig Dr Pepper Inc., Nov. 9, 2023
- Anheuser-Busch InBev S.A./N.V., Sept. 26, 2023
- Anheuser-Busch InBev Upgraded To 'A-' On Resilient Performance And Deleveraging Trend; Outlook Stable, April 21, 2023

## Ratings List

**Ratings Affirmed; Outlook Action**

| | To | From |
|---|---|---|
| **BevCo Lux S.a.r.l.** | | |
| Issuer Credit Rating | BBB/Negative/-- | BBB/Stable/-- |
| Senior Unsecured | BBB | BBB |