

Research Update:

BevCo Lux 'BBB' Ratings Affirmed On Some Deleveraging Expectations; Outlook Negative

December 23, 2024

Rating Action Overview

- Luxembourg-based investment holding company BevCo Lux S.a.r.l. (BevCo Lux) has completed about €525 million of asset sales as of Sep. 30, 2024, primarily by selling highly creditworthy and listed assets. We anticipate that a sizable portion of the proceeds will be distributed to its parent company Aguila Ltd. to reduce the overall's group leverage prospects.
- Based on the June 30, 2024, portfolio value and reported debt and pro forma its latest divestments and distributions to its parent, we estimate BevCo Lux's loan-to-value (LTV) ratio reached 16.8% (about 15% including the full disposal of the Inmobiliaria Colonial stake at the end of November and assuming that all proceeds are used for net debt reduction) while we estimate that Aguila's pro forma LTV decreased to about 13% as of Sept. 30, 2024 from 15.3% as of Sept. 30, 2023 (11.5% when including the Colonial disposal and assuming all proceeds are used for net debt reduction).
- However, when calculating these LTV ratios at Anheuser-Busch InBev S.A./N.V. (ABI; A-/Stable/A-2) current share price--BevCo Lux's key asset representing 80% of its portfolio--we calculate that the pro forma LTV ratios are 18.3% and 13.5% for BevCo Lux and Aguila, respectively, excluding additional asset sales from after Sept. 30, 2024 (or 16.3% and 12.1% including the Inmobiliaria Colonial disposal and assuming all proceeds fund debt reduction). These pro forma ratios still represent relatively thin headroom when comparing it to our 20% and 15% maximum LTV levels for the current rating positioning.
- Moreover, we think that the sale of publicly listed and highly creditworthy assets such as Keurig Dr Pepper Inc. (KDP; BBB/Stable/A-2) or Kraft Heinz Co. (BBB/Stable/--) are incrementally negative to the group's overall portfolio quality because it reduces its liquidity and average asset credit profile, while it further increases the asset concentration and the exposure to the price swings of ABI.
- We therefore affirmed our 'BBB' long-term issuer credit rating on BevCo Lux and issue ratings on its unsecured debt.
- The negative outlook on BevCo Lux reflects the currently limited leeway under parent company Aguila's 15% LTV ratio rating threshold and the potential for a downgrade in the next six to 12 months if Aguila does not further improve its LTV closer to 10%-12%, all else being equal.

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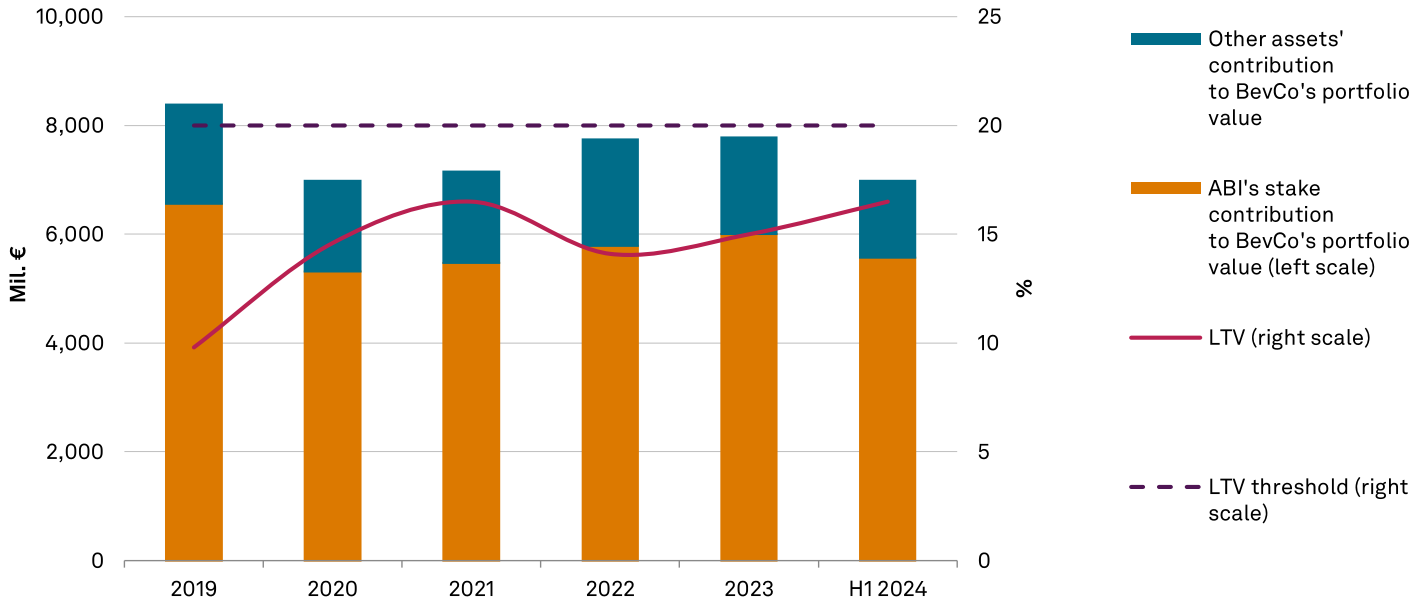
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Rating Action Rationale

Parent company Aguila, and therefore BevCo Lux, have relatively modest financial headroom should equity market conditions becomes less favorable in 2025. We estimate that BevCo Lux's LTV is about 16.8% pro forma its most recent divestments and shareholder distributions through the end of September 2024 and based on asset prices as of June 30, 2024 (about 15% including the full disposal of the Inmobiliaria Colonial stake and assuming all these proceeds fund net debt reduction). In addition, we calculate an LTV ratio of about 13% at the Aguila level as of Sept. 30, 2024 (11.5% including the Inmobiliaria Colonial disposal and assuming all proceeds are used for net debt reduction). In our view, despite the relative improvement from 2023, this still represents modest headroom under our respective 20% and 15% maximum LTV thresholds for BevCo Lux and its parent, particularly in the case of a potential decline in equity markets and asset prices.

The group's recent asset sales have not affected its main asset ABI, which we estimate now represent an even greater share of BevCo and Aguila's portfolios (about 80% and 50%, respectively, compared with 76% and 47% one year ago). We think this leaves the group incrementally more exposed to the volatility of one single stock price, which could ultimately translate to greater LTV ratio volatility. For example, we estimate that by incorporating the about 10% decline in ABI's share price since June 30, 2024, BevCo Lux's and Aguila's pro forma LTVs would be respectively higher at about 18.3% and 13.5%, all else being equal, which would represent thinner leeway compared to our rating triggers. If we were to include the Inmobiliaria Colonial disposal, those pro forma ratios would be about 16.3% and 12.1% at the current ABI share price, assuming that all proceeds fund net debt reduction.

BevCo's deleveraging remains constrained by ABI's share price remaining below its 2019 level



All figures adjusted by S&P Global Ratings. ABI--Anheuser-Busch InBev S.A./N.V. LTV--Loan to value. Source: BevCo's financial reports, S&P Global Ratings.

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The rating trajectory of BevCo Lux will hinge on the group's financial policy actions in 2025. We view favorably the investment holding's intention to reduce its debt level via asset sales, including at Aguila. We anticipate that most of the €525 million proceeds from the announced disposals at the BevCo Lux level through Sept. 30, 2024--mainly consisting of its stakes in KDP and Kraft Heinz (worth about €540 million and €40 million at Dec. 31, 2023)--will be distributed to its parent. To date, BevCo Lux reported total net distributions to its parent of €517 million in 2024, including dividend payments, share capital redemption, and additional drawing from Aguila under the intercompany evergreen facility. All these distributions are already incorporated in our pro forma LTV figure of 16.8% for BevCo Lux (or about 15% including the disposal of the Inmobiliaria Colonial stake and assuming that all proceeds are used for net debt reduction). We think this could translate into lower leverage at the parent level at year-end 2024 and through 2025 so long as a sizable portion of these proceeds are allocated to net debt reduction while the distributions to the group's ultimate shareholders are more moderate than in previous years.

The group's portfolio liquidity and creditworthiness are affected by its proportionally increased exposure to unlisted assets and some asset pledges. BevCo Lux's investments in various private businesses amounted to close to €1.3 billion at June 30, 2024, from €1.2 billion at Dec. 31, 2023, and about €600 million as of Dec. 31, 2022, which includes new investments, divestments, and

changes in mark-to-market. At the same time, it fully offloaded its stake in Kraft Heinz and most of its position in KDP through 2024. We estimate this results in the holding company's share of liquid assets declining to about 83% on a pro forma basis, from 87% at Dec. 31, 2023, and much below the 95%-100% range it maintained before that.

At the same time, the bulk of Aguila's assets other than those coming from BevCo Lux's perimeter are invested in private businesses, resulting in an overall group portfolio exposure to listed assets slightly below 60%. Moreover, about 25% of BevCo Lux's listed assets are pledged for its secured revolving credit facilities (all undrawn as of June 30, 2024). We also understand that a modest proportion of Aguila's other listed assets are pledged to secured financing at parent level. We believe this incrementally weakens the group's portfolio liquidity.

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. We estimate the group's overall average asset credit quality to be currently in the low end of the 'bbb' category, mainly thanks to the strong creditworthiness of its key asset ABI. Although we still view this level as sound portfolio credit quality, we estimate that further recalibration to private securities could result in a shift toward the speculative-grade category. This could result in rating downside, particularly if Aguila does not restore stronger headroom compared to our 15% maximum LTV threshold.

We continue to assess Aguila's credit profile at 'bbb', supporting our final rating on BevCo Lux.

We still view parent company Aguila's creditworthiness as one notch higher than BevCo Lux'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 still trailing close to the 15% ceiling and the higher exposure to private assets, represent downside risks. We estimate that Aguila's total portfolio value is about 1.6x higher than that of BevCo Lux, which reduces its reliance on ABI to about 50% as of Sept. 30, 2024, compared with about 80% for BevCo Lux. 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 3 assets represented about 63% of the total portfolio, against about 86% for BevCo Lux. Aguila fully owns BevCo Lux, 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 Lux is essential to the group's strategy and equalize our final issuer credit rating on BevCo Lux with our group credit profile assessment of Aguila.

Outlook

The negative outlook reflects the still-limited leeway of BevCo Lux's parent Aguila under its LTV ratio rating threshold and our view that portfolio quality has marginally deteriorated from the sale of publicly listed assets to curb leverage. As a result, we could lower BevCo Lux by one notch if its LTV does not stay well below 20% while Aguila's LTV does not improve in the 10%-12% range in the next six to 12 months.

Downside scenario

We could downgrade BevCo Lux if it does not maintain headroom under our 20% maximum threshold, while Aguila's LTV does not sustain an LTV ratio of 10%-12% under any market

circumstances. This could stem from a sharp deterioration in ABI's share price or new shareholder distributions that are not covered by dividend and interest income or portfolio value growth.

Upside scenario

We could revise our outlook on BevCo Lux to stable if it maintains its LTV well below 20% while Aguila reduces its LTV to 10%-12% by mid-2025 and beyond. We estimate this could stem from further asset disposals used to reduce its net debt position or lower shareholder distributions.

Company Description

BevCo Lux is an investment holding company ultimately owned by the Santo Domingo family. Based on asset values as of June 30, 2024, 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 Lux has a 5.2% stake in ABI and the asset represents about 79.8% of the pro forma portfolio.
- Other publicly traded securities: Representing 3.3% of the pro forma portfolio and including investments in KDP, a leading producer of hot and cold beverages in the U.S.; and 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 €11.3 billion.
- Private equity securities: Composed of various private investments representing about 16.9% of the pro forma portfolio.

Our Base-Case Scenario

Assumptions

- Estimated annual dividends inflow and interest income of €110 million to €120 million in 2024, slightly declining to €100 million to €110 million in 2025 due to the KDP and Kraft Heinz divestments, compared with €111 million in 2023.
- Low annual operating expense of €2.0 million to €4.0 million.
- Stable annual interest expenses of €20 million to €25 million in 2024-2025 from €20.5 million in 2023. All of BevCo Lux's debt is fixed-rate, with no refinancing needs before 2027.
- About €525 million of asset disposals at BevCo Lux's level through Sept. 30, 2024 and none thereafter, mainly coming from publicly traded securities. We also anticipate reinvestment in private assets of about €100 million in 2024, mostly funded by the €92 million contribution from parent company Aguila as of Sept. 30, 2024.
- Dividend payments to BevCo Lux's direct shareholder increasing to €100 million in 2024 from €58 million, which we anticipate will be used to accelerate debt reduction at parent level and are incorporated in our pro forma LTV figure of 16.8% (about 15% including the Inmobiliaria Colonial stake disposal and assuming that all proceeds are used for net debt reduction). We assume a broadly stable payout for next year, with any increase likely depending on BevCo

Lux's dividend inflow or asset monetization.

- No other capital redemption than the €390 million announced so far in 2024 and incorporated in our pro forma LTV figure of 16.8% (about 15% including the Inmobiliaria Colonial stake disposal and assuming that all proceeds are used for net debt reduction), most of which we expect will serve debt reduction at Aguila.
- Cash outflow of €119 million in 2024 related to Aguila's drawings on the inter-company loan facility to accelerate the parent deleveraging, which is incorporated in our pro forma LTV figure of 16.8% (about 15% including the Inmobiliaria Colonial stake disposal and assuming that all proceeds are used for net debt reduction).

Key metrics

BevCo Lux S.a.r.l.--Key metrics

(Mil. €)	2018a	2019a	2020a	2021a	2022a	2023a	2024f	2025f
LTV	14.8	9.8	14.6	16.5	14.1	15.0	<20.0	<20.0
Dividend and interest income	294	273	90	81	91	111	110-120	100-110
Cash flow adequacy (x)	9.1	9.2	2.4	1.7	3.2	4.8	4.5-5.0	4.0-4.5

All figures adjusted by S&P Global Ratings. 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. a--Actual. f--forecast. LTV--Loan to value.

Liquidity

We assess BevCo Lux's liquidity as strong, with a ratio of sources to uses of about 3.3x over the 12 months from June 30, 2024, and 4.2x over the subsequent 12 months. The company has 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 Lux'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 Lux'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, 2024, include:

- Cash balance of €10 million.
- About €866 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 to €115 million.
- About €301 million of contracted asset disposal proceeds, not including the Inmobiliaria Colonial stake disposal.

Principal liquidity uses for the same period include:

- No debt maturities over the next 24 months.
- Operating expense of about €2 million to €4 million per year.
- Annual interest expense of €20 million to €25 million per year.
- Annual dividend payment to BevCo Lux's direct shareholder of €100 million.
- Announced share capital redemption of €149 million.
- Announced drawing of €119 million by Aguila under the inter-company loan facility.

Environmental, Social, And Governance

We regard governance factors as moderately negative for BevCo Lux'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 into more lumpy shareholder distributions and leverage at both the BevCo Lux and Aguila levels. In addition, in our view, BevCo Lux's publicly listed peers report their financials 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 Lux. This mirrors our view that brewing company ABI, which represents about 76% of BevCo Lux'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 Lux's capital structure mainly constitutes a €500 million unsecured bond due September 2027 and a €600 million unsecured bond due January 2030. As of June 30, 2024, the group has drawn about €143 million under its unsecured RCFs at the parent level, to which BevCo Lux 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 Lux, 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

- 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: Moderately negative (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

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Anheuser-Busch InBev S.A./N.V., Dec. 10, 2024
- Global Economic Outlook Q1 2025: Buckle Up, Nov. 27, 2024
- Consumer Product Companies: The Road To Volume Growth Remains Elusive, Oct. 15, 2024
- SLIDES PUBLISHED: EMEA Investment Holding Companies: Conservative Leverage Underpins Stable Outlooks, July 11, 2024
- Outlook On BevCo Lux Revised To Negative On Higher Group Leverage And Shareholder Distributions; 'BBB' Ratings Affirmed, Dec. 22, 2023

Ratings List

Ratings Affirmed	
BevCo Lux S.a.r.l.	
Issuer Credit Rating	BBB/Negative/--
Senior Unsecured	BBB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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