Heineken – Beneficiary of global disruption and riding the Africa Megatrend

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Being on the right side of disruption is going to be a key driver of generating future investment performance. Many consumer staple companies that have been at the core of quality portfolios are now being disrupted and beer clearly falls into the same category. Historically investing in beer companies has been attractive since most beer markets around the world are duopolies or oligopolies which led to rational competitive behaviour, high cash flow generation and high levels of profitability for incumbent players. In addition, in the pre-crisis period, global beer volumes typically grew in line with GDP, with revenues growing ahead due to pricing and mix effects.

However, between 2010 and 2017 global beer volumes grew below GDP. Going forward (2018-22), Euromonitor forecast beer volume growth at c30% of GDP which is a significant slowdown. The schematic from the Brewers Association below shows some data from the US market in 2107.

There are several reasons for this collapse which include:

- **One of the largest demographic shifts in history,**
- **The emergence of alternative beverage categories like wine, cider and health-oriented drinks**
- **Tighter regulatory and taxation measures.**

Based on traditional economic moat analysis, Anheuser-Busch InBev (ABI), being the undisputed leader in beer with 30% of global volumes and circa 50% of profits, would be the most attractive company to invest in. However, this is no longer a great benefit now that the category has stopped growing and is entering a secular decline. Within the beer market, mainstream beer is suffering the most, as consumers are moving rapidly towards other alternatives (like premium and craft beer, spirits, wine and even cannabis). Mainstream beer remains under pressure in most markets, including Emerging Markets, and while premium and super-premium beer continues to grow, an estimated 81% of ABI's volumes are still estimated to be in mainstream/discount beer.

The growth in beer volumes over the next decade is expected to come from select pockets of Africa, Asia and Latin America. Heineken's exposure to many of these faster growing emerging markets and a greater percentage of sales towards premium beers makes it very well positioned to continue to benefit. For example, two of its core markets, Mexico and Vietnam, are expected to be the two fastest growing markets over the next 5 years. The company is also well positioned longer term with Africa, one of the few structural growth regions in the world, represents 19% of Heineken's group volume, compared with only 9% for ABI. With over 60% of operating profits comes from emerging markets, the highest exposure to premium beer and an owner managed business model, Heineken is positioned on the right side of global disruption and a major beneficiary of the Africa Megatrend.