



Anheuser-Busch Companies (BUD)

September 24, 2007

Target Price: \$49.62

Current Price: \$50.57

HOLD

Investment Thesis

- We recommend a **HOLD** on Anheuser-Busch.
 - Domestic beer sales show low single digit annual growth potential
 - The equity stake in Grupo Modelo has potential for 20% annual growth but is already priced into the valuation
 - Our target price of \$49.62 reflects full valuation at the current price of \$50.57

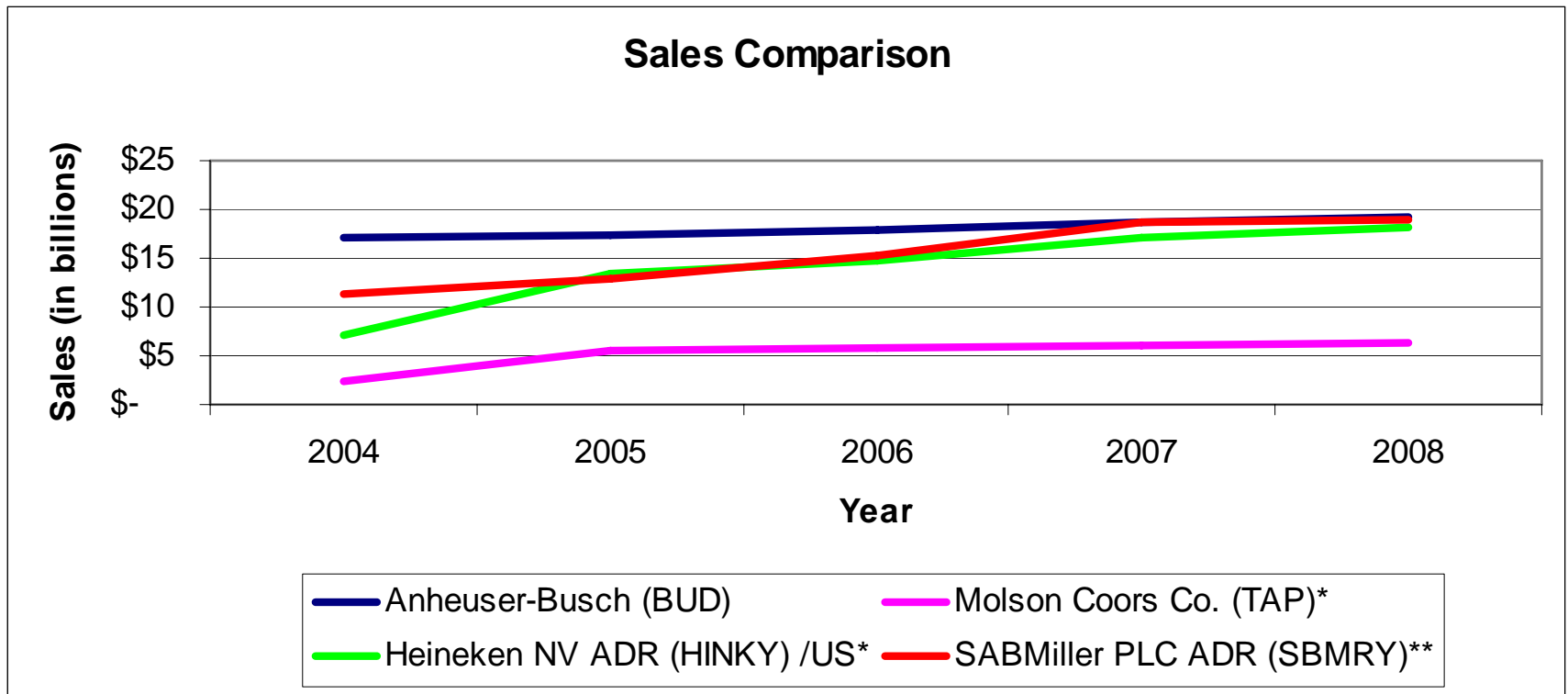


Overview of Business

- Domestic Beer Operations
 - Industry leader in sales volume since 1957
 - Maintain an extensive distribution system while preserving quality and freshness
 - Focused, strategic Marketing/Advertising Plan
- International Beer Operations
 - Breweries in the U.K. and China
 - Established presence in the U.K., China, Canada, Ireland and Mexico through license agreements and equity investments
- Packaging
 - Synergy with other divisions through wholly-owned subsidiary Metal Container Corporation
- Entertainment
 - Operation of 9 theme parks-adds diversity to portfolio



Competition



*thomsononeim.com

**SABMiller 2007 Annual Report p. 138

Qualitative Analysis

Industry Conditions

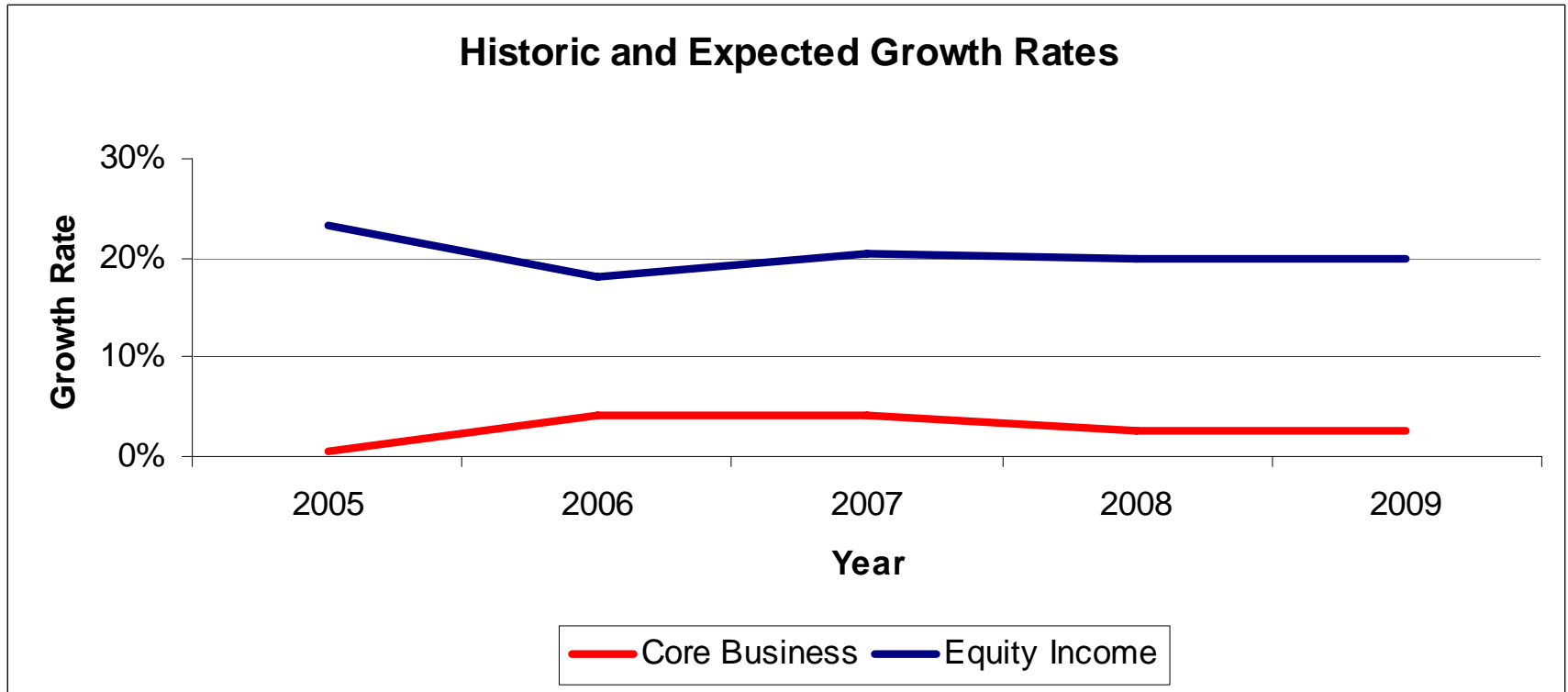
- Secular decline in domestic beer market
- Increased popularity in import, craft, and specialty beers and spirits and wines
- Market has stabilized since 2005 fallout

Analysts Opinions

- Near term earnings growth is expected to be slow and steady
- Long term earnings show potential for increased growth
- Grupo Modelo stake is expected to be unappreciated



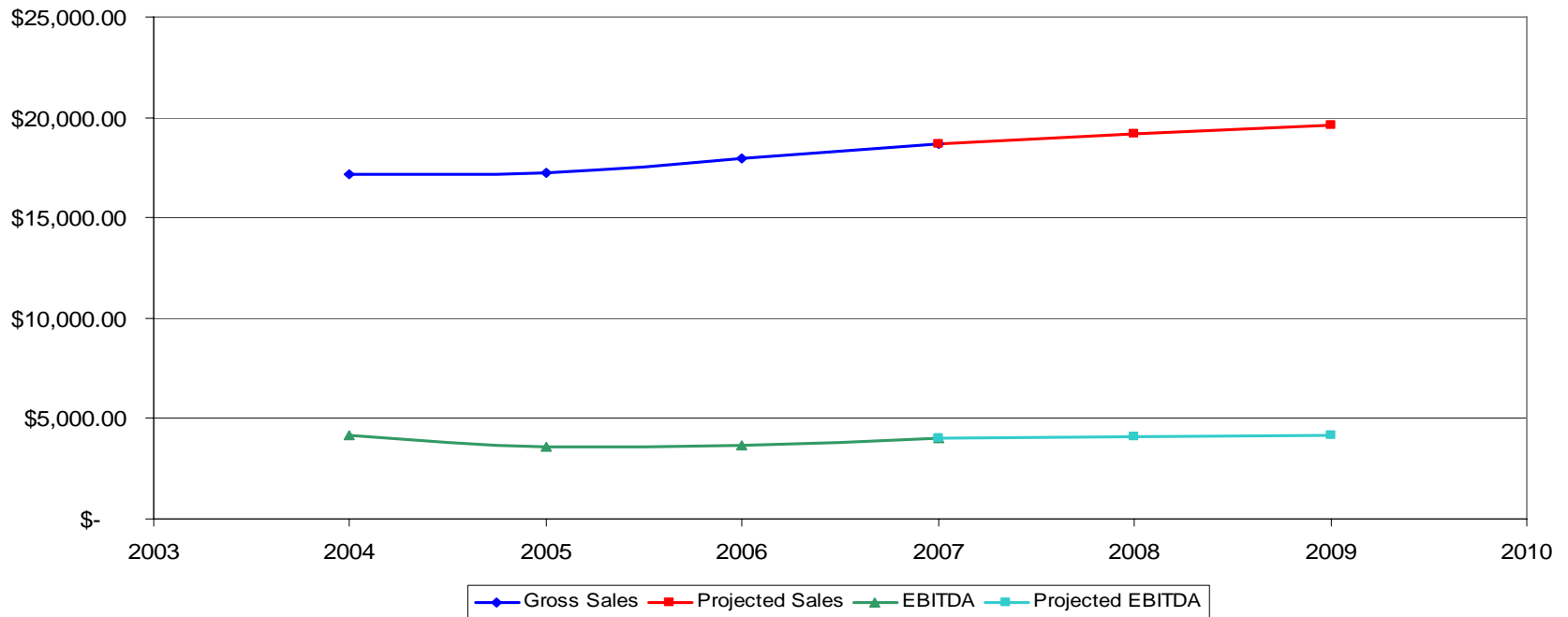
Assumptions of Growth



Stable Low-Growth Company

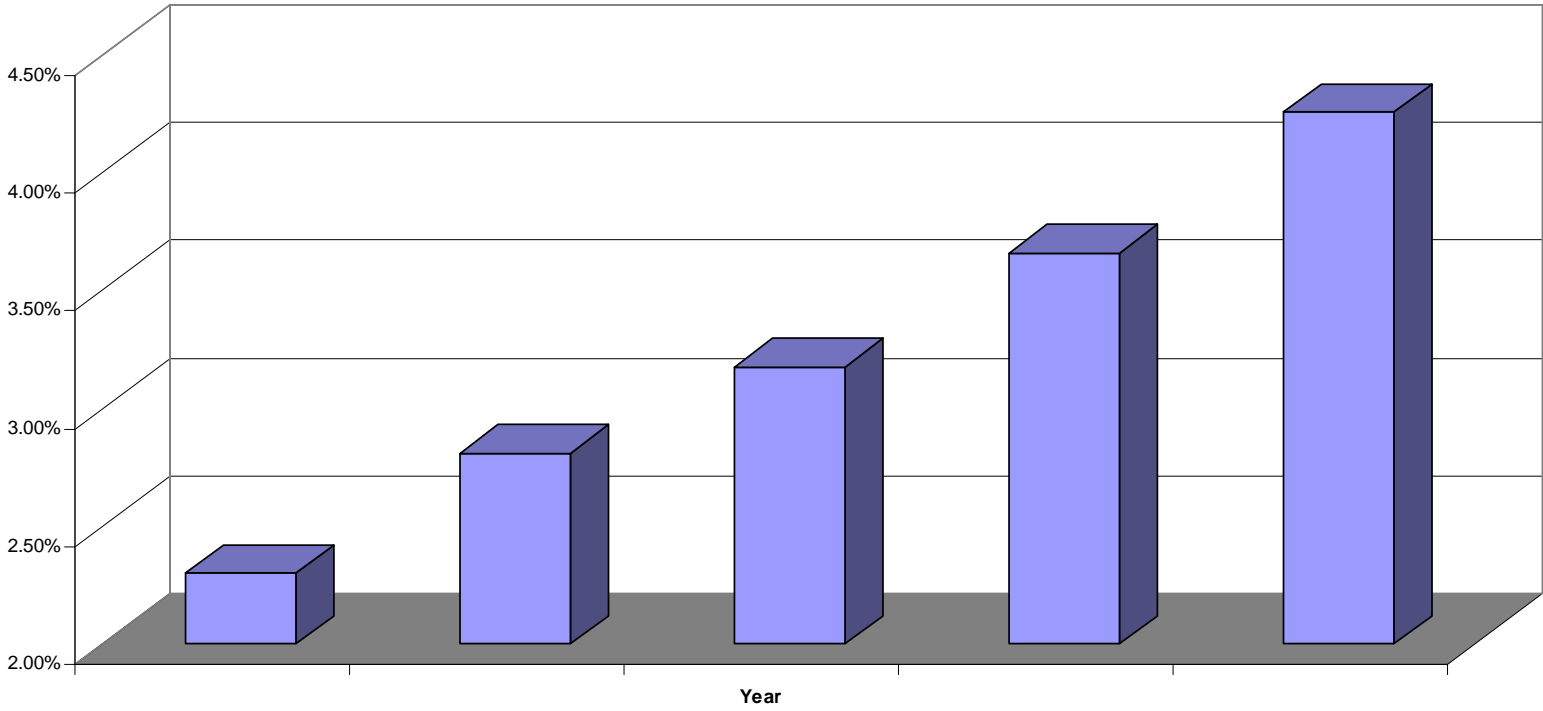
	2004	2005	2006	2007	2008	2009
Gross Sales	\$ 17,160.20	\$ 17,253.50	\$ 17,957.80	\$ 18,691.60	\$ 19,158.89	\$ 19,637.86
EBITDA	\$ 4,162.40	\$ 3,570.90	\$ 3,652.30	\$ 4,021.01	\$ 4,098.12	\$ 4,177.15

Values in Millions



Grupo Modelo Equity Stake

Equity Stake as a Percentage of Total Sales



Relative Metrics	Bud	Industry*
F P/E (2007)	16.8	31.1
P/S (ttm)	2.1	2.3
TEV/EBITDA	11.6	

*According to <http://biz.yahoo.com/ic/346.html> 9/23/2007



Intrinsic Value	
Required Return	7.5%
NPV of Future FCF	\$ 7,728.89
Terminal Value	\$ 38,395.21
Debt	\$ 7,953.90
Total Equity NPV	\$ 38,170.20
Units Outstanding	766.7
Price	\$ 49.79

Explanation of Risk

- **Bear Story**
 - Low growth in domestic sales
 - Foreign currency risk
 - Commodity price risk
- **Bull Story**
 - Investing in Grupo Modelo
 - Pricing environment
 - Expansion
 - Brand name



Recommendation: **HOLD**

- Domestic beer sales declining
 - Consumer preferences are changing to premium beer, spirits and wine
- Effects of seasonality could influence the stock price in the short term
 - Peak selling periods in 2nd and 3rd Quarters
- Valuation implies full value at current price \$50.57

