

EQUITY RESEARCH

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AMBV4: R\$ 100.51 (8/14/08)  
Target price (Dec. 2008): R\$ 192.91  
Recommendation: BUY  
MV: R\$ 61,753.3 million  
EV: R\$ 70,015.8 million

**First Impression:**

Ambev registered a **good operating result** in 2Q08 which was **above our expectations**. The company announced that its net revenues had risen by 4.7% over 2Q07, in line with our estimate. The positive highlight was the EBITDA margin which came to 41.8% and was 1.0p.p. higher than in 2Q07 due to the lower operating expenses/net revenues ratio. This margin was 2.2 p.p. above our estimates as the gross margin was 0.6p.p. higher than we had expected while the operating expenses were 1.6p.p. below our projections. Net income came to R\$402.1 million, 10.4% lower than in 2Q07 and 29.7% lower than our estimate. This was due mainly to the financial result which came to R\$334.1 million in 2Q08 (versus a negative R\$337.2 million in 2Q07) compared with our estimates of R\$275.2 million. The provision for social contributions and income tax in 2Q08 came to R\$354.1 million (R\$294.8 million in 2Q07) as a result of the adjustment in the currency variation line on investments abroad and the non-deductible installment from the amortization of goodwill.

**Overview:**

Good  Regular  Bad

**In comparison to Fator's estimates:**

Above  Below  In line

**In relation to the market consensus:**

Above  Below  In line

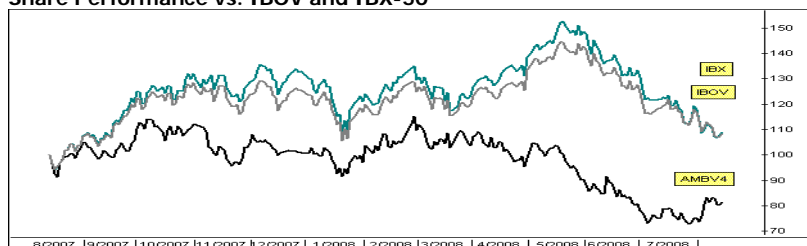
Operating Data:	2Q08	2Q08E	1Q08	2Q07	2Q08/ 2Q08E	2Q08/ 1Q08	2Q08/ 2Q07
Total volume (thousand hl)	32,777	31,433	35,784	31,214	4.3%	-8.4%	5.0%
Beer Vol. IM/Total Vol.	48.2%	50.4%	47.3%	48.6%	-2.2 p.p.	1.0 p.p.	-0.4 p.p.
Total Average Price (R\$/hl)	144.59	150.59	135.47	144.97	-4.0%	6.7%	-0.3%

Fonte: Empresa e estimativas Fator Corretora

P & L - Consolidated (R\$ million)	2Q08	2Q08E	1Q08	2Q07	2Q08/ 2Q08P	2Q08/ 1Q08	2Q08/ 2Q07
Net Revenue	4,739.4	4,733.4	4,847.8	4,525.1	0.1%	-2.2%	4.7%
EBITDA	1,978.7	1,871.1	2,074.1	1,842.4	5.7%	-4.6%	7.4%
EBITDA margin	41.8%	39.5%	42.8%	40.7%	2.2 p.p.	-1.0 p.p.	1.0 p.p.
Net income	402.1	572.3	743.8	448.7	-29.7%	-45.9%	-10.4%

Source: Company and Fator Corretora estimates

**Share Performance vs. IBOV and IBX-50**



Source: Economatica

The outstanding event was the fall in the operating expenses/net revenues ratio for the consolidated operations of Quinsa which declined from 22.4% in 2Q07 to 21.0%. Net revenues from the Quinsa operations represented 13.4% of Ambev's consolidated operations. The decline in this index from 33.1% to 30.9% for the company's operations in North America is also worth noting. The net revenues from these operations represented 21.3% of the consolidated figure for Ambev.

In terms of volumes, the highlight was the organic growth of 3.8% registered for beer on the Brazilian market 2Q08/2Q07 which compares with a decline of 1.9% in 1Q08 over 1Q07. We believe this was a good performance, thanks to the recovery over the previous quarter, although the growth was a little below the consolidated growth of the company (4.8% of organic growth in volumes in 2Q08/2Q07).

Ambev's performance in the 1Q08 suffered a few setbacks such as lower temperatures in relation to 1Q07, less (vacation) days between new years and carnival and the effect of higher food prices which affect sales. We had thought food inflation would be a major setback for sales growth, but 2Q08 results show that weak growth in the first quarter was due to the combination of events, some of which are not recurring.

Even though net profit was lower than 2Q07 and our estimates, the operational result delivered was strong and above our expectations. Brazilian beer operations still contributes with the majority of the consolidated result (50.3% of net revenue and 56.3% of ebitda in the 2Q08, against 48.4% and 56.4% in the 2Q07, respectively).

All in all, Ambev's stock performance should depend on expectations regarding their sales performance on the Brazilian market in the 3Q08, period in which sales growth will be affected by the recently imposed "Lei Seca". Even though we believe consumers will adapt to new standards of consumption (many consumers don't have cars yet in Brazil), we consider the effects of this new regulation will be negative for the company in the 3Q08 (yet their difficult to measure now).

The rise in IPI rate which should be enforced by jan/09 should also impose negative pressure on the company's cash flow going forward.

Even though all the negative news in the short term, we maintain a **BUY** rating for Ambev, with a price target of R\$192,91, since we believe that even with lower growth levels and higher IPI rates the stocks offer high appreciation potential.

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