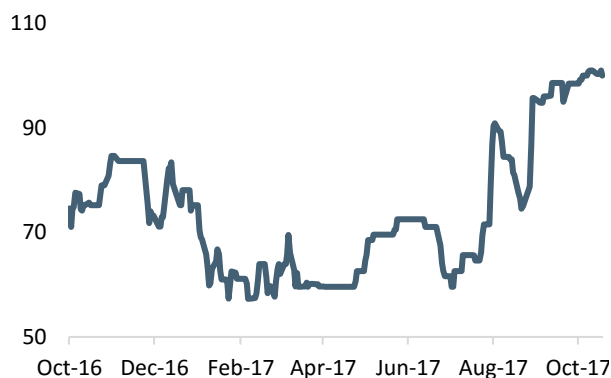


Rating	SELL
Price	₦100.38
FVE	₦73.8
52-week range	₦57.28 - ₦101.0
Market Cap. (N'bn)	150,649.05
1-month Avg. Vol	775,295
Curr. P.E	70.38x

Quarterly EPS	Q1	Q2	Q3	Q4
2016 A	0.24	0.54	(0.20)	(1.91)
2017 A	(1.46)	(1.62)	1.40	2.96
2018A(E*)	0.02	0.95*	1.02*	1.39*

GUINNESS.NL - Share Price Trend



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Guinness Nigeria Plc. (GUINNESS.NL)

Stock Report

FX losses stifle earnings

- Guinness released its unaudited first quarter 2018 results posting a pre-tax profit of ₦41.4 million (vs. pre-tax loss of ₦2.2 billion in FQ1 17) on the back of strong growth in revenue (+30% YoY) mainly due to higher prices. Irrespective higher financing expenses (FX losses) moderated the pass-through from revenue growth to dampen earnings expectation.

- Price and benign cost lend support to margin.** As was the case in the last three quarters, Guinness recorded strong double-digit revenue growth in FQ1 18 (+30% YoY) which management attributed to higher prices YoY, continued growth within the spirits business as well as the benefit of an expanding portfolio. Although the company had to adjust prices slightly lower (relative to prior quarter) in response to price competition from NB, pass-through from strong YoY price edge still saw revenue growth outpace that of input cost (+18.8% YoY). In our view, moderation in input cost pressure reflected improved FX liquidity and resultant naira appreciation which supported lower input prices from suppliers who had previously passed on currency pressure (from parallel market sourcing) to the company. The foregoing combined with price increase drove gross margin higher (6.1pps YoY) to 34.7% with related profit of ₦10.4 billion (+58% YoY).

- Further down, lower admin expenses (-17% YoY) which partly offset higher S&D expenses¹ as well as low base from the

¹ Management ramped up investments geared towards boosting volumes in a quarter that is traditionally considered its weakest

corresponding period of 2017, drove a 3.9x YoY growth in operating profit to ~~¥~~2.7 billion.

- ***Elevated finance expense ruins rosy performance.*** However, Guinness's otherwise rosy performance was derailed by its elevated finance expense (+14% YoY to ~~¥~~3.9 billion), which was principally driven by FX loss of ~~¥~~2.2 billion on foreign denominated debt². On a positive note, the company also reported sturdy growth in finance income (+179% YoY to ~~¥~~1.2 billion) which prevented it from reverting to a loss in the quarter with earnings coming in at ~~¥~~41 million.
- ***Strong sales from diversified portfolio to support to 2018 earnings:*** For the rest of the year (FY 18), we retain our projection for revenue at ~~¥~~137.96 billion (+9% YoY) largely underpinned by higher YoY prices and growing demand in Guinness's growing spirits business. Similarly, against the backdrop of moderate pace of input cost growth relative to expectations and the transitory nature of transport-induced food inflation, we also revise our expectations for COGS lower to ~~¥~~81.4 billion (+5% YoY, prior: ~~¥~~83.8 billion). The foregoing translates to gross profit of ~~¥~~56.6 billion (+17.1% YoY) with related margins at 41%. Similarly, we have revised operating cost lower to ~~¥~~39.7 billion (+2% YoY) in line with FQ1 18 performance to leave EBIT 74% higher YoY at ~~¥~~17.7 billion.
- In addition, we forecast finance expense higher to ~~¥~~8.7 billion (-11.5% YoY) in recognition of elevated FX losses in FQ1 18. Similarly, we have also revised NB's finance income higher to ~~¥~~3.2 billion (+40% YoY) to capture the impact of the robust interest income earned over FQ1 18 (prior estimate: ~~¥~~1.98 billion, FQ1 18: ~~¥~~1.23 billion). Net impact of revisions to our model translates to PBT and PAT of ~~¥~~12.2 billion (+4.6x YoY) and ~~¥~~8.4 billion (+4.4x YoY) respectively. Also adjusting for higher shares outstanding (2.5 billion vs 2.2 billion previously assumed), our 2018E EPS amounts to ~~¥~~3.83.
- Guinness trades at a current P/E of 78.6x vs 41.9x for Bloomberg EMEA peers. We have a **SELL** rating on the stock with a FVE of ~~¥~~73.8.

² Even though the impact on earnings was not obvious in the quarter, Guinness paid down a sizable chunk of its outstanding loans (-67% QoQ, -59% YoY) following the conclusion of its rights issue programme to leave the company's total debt liability at ~~¥~~13.8 billion-its lowest level since FQ2 13.

Summary of Results and Forecasts - Naira (₦)

ANNUAL					
Income Statement (N'm) *	FY 2015A	FY 2016A	FY 2017A	FY 2018E	FY 2019E
Revenue	118,496	101,973	125,920	137,968	147,859
COGS	62,604	60,163	77,605	81,401	84,280
Gross Profit	55,892	41,810	48,315	56,567	63,579
Operating Cost	40,947	37,895	38,976	39,735	40,661
Operating Profit	15,667	4,416	10,186	17,707	23,868
Finance Income	705	1,185	2,253	3,155	771
Finance expense	5,578	7,948	9,778	8,653	3,754
PBT	10,795	2,347	2,662	12,210	20,885
Tax	3,000	331	738	3,785	6,265
PAT	7,795	2,016	1,924	8,425	14,619
Balance Sheet (₦ '000)*					
Fixed Assets	87,754	87,233	87,325	91,162	93,088
Stocks	10,751	13,021	23,094	24,420	25,284
Trade debtors	16,956	29,004	24,199	28,973	30,607
Cash & other bank balances	5,805	5,845	9,933	2,917	8,210
Total Assets	122,247	136,992	146,038	148,960	158,676
Trade Creditors	31,482	37,530	43,053	46,317	47,955
Non-current Liabilities	27,805	28,222	39,376	17,473	17,772
Total liabilities	73,905	95,332	103,095	83,776	85,150
Shareholders' fund	48,341	41,661	42,943	65,552	73,894
Key Ratios	FY 2015A	FY 2016A	FY 2017A	FY 2018E	FY 2019E
EPS	5.18	1.34	1.28	3.37	5.85
DPS	3.20	0.50	0.53	1.45	2.51
BVPS	32.10	27.67	28.52	26.22	29.56
P/E	19.39	N/A	78.58	29.79	17.17
P/B	3.13	3.63	3.52	3.83	3.40
EV/EBITDA	8.22	14.25	9.10	17.37	7.54
Gross Margins	47%	41%	38%	41%	43%
EBIT Margins	13%	4%	8%	13%	16%
PBT Margins	9%	-2%	2%	9%	14%
Net Margins	7%	-2%	2%	6%	10%
Debt-equity ratio	3%	41%	22%	17%	16%
Current Ratio	0.73	0.71	0.90	0.85	0.95
ROA	6%	-2%	1%	6%	10%
ROE	17%	-4%	5%	16%	21%

Source: ARM Research *unless otherwise stated

Ratings, Disclosure & Disclaimer – [Click here](#)