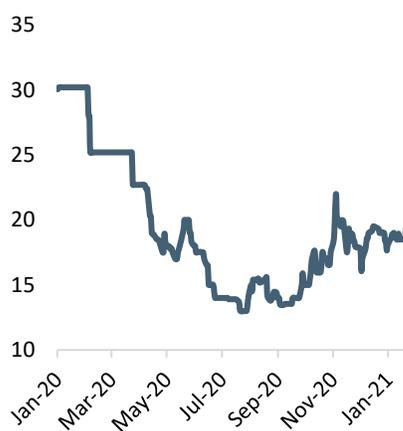




Rating	NEUTRAL
Price	₦19.00
FVE	₦28.41
52-week range	₦12.85 – ₦32.00
Market Cap. (₦'bn)	42.055
1-month Avg. Vol	1,202,376
Curr. PE	22.6x

GUINNESS .NL –Price Trend



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Guinness Nigeria Plc. (GUINNESS.NL)

Stock report

Concerns remain around costs

Guinness reported a surprising YoY growth in their revenue over Q221 (3 months ending in December) despite the muted holiday celebrations. However, their revenue performance was once again overshadowed by rising cost of sales (+4.2%YoY) which dragged gross profit down by 2.8%YoY. Further highlighting their issue with costs is the performance of their EBITDA which declined 12%YoY over H121 and now has a margin of 10.8% in H121 (vs13.1% in H120). Guinness are also facing financing cost pressure with interest expense rising for the 4th consecutive quarter and leading net finance expenses higher in Q221 by 165%YoY. Higher cost of sales and increased net finance cost were enough to see PBT fall by 30.1%YoY to ₦1.61 billion, despite improvement in OPEX. While we have a FVE of ₦28.41 on the stock upon adjusting our risk-free rate to reflect current reality, we maintain a NEUTRAL rating on the stock following our concerns around upward pressure on Guinness' cost of sales and rising interest charges.

- Higher costs sink gross profits again:** Guinness' revenue rose by 2.2%YoY in Q221 to ₦42.33 billion (Q121: ₦41.43 billion). Similar to what we saw in Q121, the growth in revenue was driven solely by a rise in domestic sales (+5.7%YoY) to ₦41.88 billion and we suspect that growth was as mainly a result of price increases imposed earlier in the year. Exports, on the other hand, declined by 75.2%YoY which is an even sharper decline than what was posted in Q121 (-46.1%YoY). However, for the second consecutive quarter, cost of sales rose (+4.2%YoY) faster than revenue and printed at ₦30.75 billion. The faster rise in cost meant that gross profit declined by 2.8%YoY to ₦11.57 billion with gross margin also coming in lower at 27.3% (vs 28.7% YoY). Over H121 revenue rose 5.9%YoY to ₦72.35 billion, led by both price and quantity, while costs grew by 10.9%YoY over the same period which implies that gross profit declined by 6.4% in H121 to ₦18.59 billion.
- One positive note from Guinness' result is the continued decline in operating expense which has now fallen YoY for 3 consecutive quarters. In Q221, OPEX was down by 2.8%YoY to ₦8.94 billion following a 6.7% fall in sales and distribution costs. Other income surged by over 200%YoY to ₦490 million driven by an unprecedented spike in the gain on disposal of PPE to ₦345 million. The fall in OPEX and rise in other income was enough to flip the decline in gross profit into an 8.7%YoY rise in operating profit (EBIT) to ₦3.13 billion. For

the 6M period, operating profit came in at $\text{¥}3.72$ billion, a 4.4%YoY growth and it also followed on from lower OPEX (-6.1%YoY) and higher other income (+147%YoY).

- Net finance expense rose by 165%YoY following the combination of a rise in finance expense (+121.9%YoY) and a fall in finance income (-337.8%YoY). The latter followed on from an approximate 86%YoY fall in total interest arising from financial assets as average fixed income yields declined by 885bps over the period to 2.41%. The rise in finance expense, on the other hand, was driven by a higher loss on re-measurement of FX balances. This higher net finance expense dragged PBT lower by 30.1%YoY to $\text{¥}1.61$ billion and after a higher tax bill of $\text{¥}1.08$ billion (76% higher than Q220's $\text{¥}619$ million), PAT declined by 68.9%YoY to $\text{¥}580$ million. It was a similar story when looking at the 6M numbers as a 49%YoY increase in net finance cost led PBT lower by 33%YoY to $\text{¥}1.29$ billion while an after-tax loss of $\text{¥}320$ million was recorded.
- Looking at the balance sheet, the standout feature was a 67% rise in cash and cash equivalents which came following a 67%QoQ rise in bank balances to $\text{¥}31.56$ billion. Additionally, there was a 33.6%QoQ jump in payables to $\text{¥}49.1$ billion, which marks a 4-year high and is probably something to keep an eye on going forward. Receivables, on the other hand, rose 32.2%QoQ – the first rise in 4 quarters – to $\text{¥}8.3$ billion, which is still comfortably below historical averages.
- ***Ignore upside, stay neutral:*** In updating our valuation model, we reduced the risk-free rate to reflect the decline in yields observed over the last year. This lower risk free rate largely led our FVE higher by 33% to $\text{¥}28.41$, which based on previous close should translate to a buy rating. However, we are not comfortable with the rising cost of sales and increased financing cost pressures that the company is facing. As a result, we recommend that investors stay neutral until margins start to paint a better picture of the company.

Summary of Results and Forecasts - ₺'000

QUARTERLY

Income Statement (₺'m) *	Q220	Q320	Q420	Q121	Q221
Revenue	41,428,478	27,691,248	8,357,510	30,024,212	42,326,528
COGS	29,521,905	16,740,144	5,830,108	23,013,178	30,751,941
Gross Profit	11,906,573	10,951,104	2,527,402	7,011,033	11,574,587
Operating Cost	9,190,416	9,432,244	4,153,486	6,631,857	8,935,235
Operating Profit	2,878,218	1,658,512	(1,540,294)	586,314	3,129,233
Net finance Income	(573,402)	(1,587,114)	(1,028,888)	(903,794)	(1,518,148)
PBT	2,304,816	71,398	(2,569,182)	(317,480)	1,611,085
Tax	619,008	24,974	(5,138,806)	524,167	1,086,860
PAT	1,685,808	46,424	2,569,624	(841,647)	524,225
Balance Sheet (₺ '000) *	6M20	9M20	12M20	3M21	6M21
Fixed Assets	102,647,372	102,535,325	90,173,043	88,995,696	87,640,636
Inventory	19,997,066	24,769,920	26,426,253	20,678,601	17,866,286
Receivables	31,555,536	23,605,174	18,718,953	6,274,302	8,296,816
Cash & other bank balances	11,420,668	9,064,024	5,271,224	18,884,042	31,584,501
Total Assets	166,105,438	160,749,207	144,145,581	138,347,785	148,528,821
Liabilities					
Payables	41,079,520	33,370,065	31,944,466	36,742,999	49,105,166
Non-current Liabilities	22,892,346	23,364,204	10,509,465	10,643,504	10,099,034
Total liabilities	79,058,965	73,656,308	71,107,441	66,151,292	75,808,102
Shareholders' fund	87,046,473	87,092,899	73,038,140	72,196,494	72,720,719
Key Ratios	Q220	Q320	Q420	Q121	Q221
Gross Margin	28.7%	39.5%	30.2%	23.4%	27.3%
EBIT Margin	6.9%	6.0%	-18.4%	2.0%	7.4%
PBT Margin	5.6%	0.3%	-30.7%	-1.1%	3.8%
PATt Margin	4.1%	0.2%	30.7%	-2.8%	1.2%
EPS	0.77	0.02	1.17	(0.38)	0.24

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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