

Guinness Nigeria Plc. (GUINNESS.NL)

Stock report

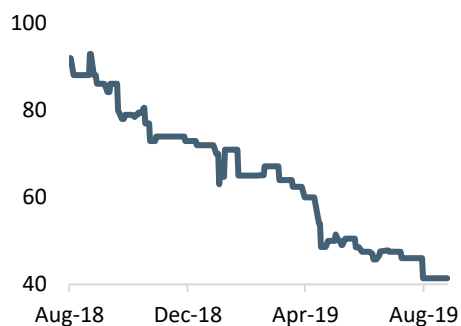
Volumes erosion to persist, downgrade to NEUTRAL

• **Following the release of Guinness Nigeria Plc 2019 financial year result and discussion with management, we revised our numbers to reflect recent realities. Specifically, we decamp our optimism on sales growth for its financial year 2020 and forecast a 4.7% decline in revenue. This is anchored on the company's inability to compete favorably amidst stiff competition for market share. Notably, while Nigerian Breweries and International Breweries have shown unrelenting quest to grow beer volumes, Guinness appears laid back. With the faster decline in Lager sales over 2019 (-47% YoY), the company is gradually evolving into a Spirit focused company. Nevertheless, factoring expectation of little or no recovery in consumer purchasing power, we think organic growth in Spirit's contribution to revenue will remain slow. Reflecting these concerns, we cut our FVE by 45% to N42.63 and downgrade to a NEUTRAL rating.**

Rating	NEUTRAL
Price	N 37.3
FVE	N42.63
52-week range	N 37.3 – N 90
Market Cap. (Nmn)	81,701.3
1-month Avg. Vol	92,173.45
Current. PE	14.91x

Quarterly EPS	Q1	Q2	Q3	Q4
2018 A	0.02	0.95	1.35	0.74
2019 A	0.38	0.80	0.76	0.72
2020 E	0.11	0.58	0.81	0.26

GUINNESS:NL - Share Price Trend

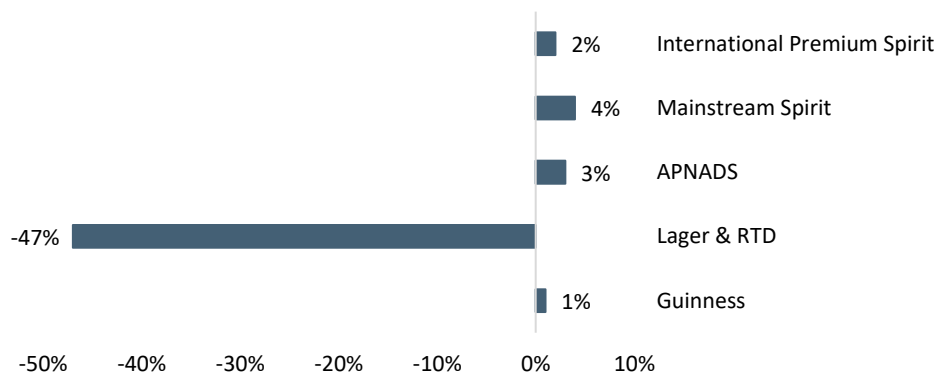


- Guinness Nigeria Plc FY 19 result showed significant weakness in earnings with EPS declining 18.4% YoY to ~~N~~2.5, marking a 23% deviation from our EPS expectation of ~~N~~3.07. While we had expected faster growth in spirits sales to trim overall sales weakness, the growth came in lesser than anticipated. As a result, the faster decline in Lager, outweighed growth in other segments, with FY 19 revenue declining 8% YoY. Notwithstanding moderation in cost during the period (cost of sales: -3.2% YoY and operating expenses: -12%), post tax profit declined 18.4% YoY to ~~N~~5.5 billion.

Analyst

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Figure 1: Revenue growth by segment FY 19



Source: Company Sources, ARM Research

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- **Going forward, we see no respite for sales** given 1.) scope for further loss of market share in the beer segment as Guinness's flagship beer – Harp and Satzenbrau continues struggle against prominent brands from IB (Trophy and Hero) and NB (Star and Gulder); 2.) slower market penetration of its newly launched premium beer – Guinness Gold; 3.) failure of management to deliver rapid growth in the spirit segment needed to offset loss in margins emanating from slump in beer volumes; and 4.) additional layer of pressure from possible hike in excise duty. Factoring these in our model, we reverse our optimism on revenue growth (our earlier revenue expectation: +2% YoY) and forecast a 4.7% decline in revenue to ₱125.4 billion over 2020 financial year.
 - We raise cost to sales ratio by 30bps to 69.8% in FY 20E emanating from higher raw material cost due to rising barley prices and continuous loss of economic of scale from softer beer volumes. Although we rule out reoccurrence of higher royalty and technical service fees recorded in the prior year, we raise OPEX to sales ratio by 40bps to 24.4%, as management is expected to pace up promotional activities in order to support sales. As a result, we expect operating profit to decline 9.9%, with related margin contracting 40bps to 8.4% in FY 20E. Overall, the impact of our adjustment translates to a 29% decrease in PAT over FY 20E to ₱3.9 billion.
 - We downgrade Guinness to a **NEUTRAL** and cut our FVE by 45% to **₱42.63** based on our expectation for lower sales following Guinness inability to gain market share over the near term. Guinness trades at a P/E of 14.91x at a discount to Bloomberg MENA peers of 16.55x. Compared to five-year historical P/E of 33.4x, Guinness is trading at an historic low. However, we believe a rerating of valuation will be anchored on material improvement in operating performance over the medium term.
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Summary of Results and Forecasts

ANNUAL					
Income Statement (N'm)	2018A	2019A	2020F	2021F	2022F
Revenue	142,976	131,498	125,379	126,238	127,444
COGS	94,350	91,369	87,515	87,736	87,681
Gross Profit	48,626	40,129	37,864	38,503	39,762
Operating Cost	35,908	31,609	30,592	31,181	31,988
Operating Profit	13,386	8,966	8,075	8,129	8,591
Interest Income	2,201	751	610	0	0
Interest Expense	5,645	2,613	3,125	3,274	3,450
PBT	9,943	7,104	5,561	4,854	5,140
Tax	3,226	1,620	1,668	1,456	1,542
PAT	6,718	5,484	3,892	3,398	3,598
Balance Sheet (N '000)					
Fixed Assets	97,602	100,801	103,974	105,206	105,922
Stocks	25,180	27,130	26,759	26,304	25,624
Trade debtors	26,415	32,599	31,938	31,734	31,048
Cash & other bank balances	4,757	-7,333	-4,642	-1,564	3,085
Total Assets	160,793	153,255	154,098	161,939	169,575
Trade Creditors	31,921	32,380	31,936	31,390	30,925
Non-current Liabilities	22,876	22,876	22,997	23,326	23,669
Total liabilities	71,732	73,131	73,744	74,485	75,351
Shareholders' fund	89,060	91,963	93,902	95,955	98,292
Key Ratios					
	2018A	2019A	2020F	2021F	2022F
Gross Margin	34.0%	30.5%	30.2%	30.5%	31.2%
EBIT Margin	9.4%	6.8%	6.4%	6.4%	6.7%
PBT Margin	7.0%	5.4%	4.4%	3.8%	4.0%
Net Margin	4.7%	4.2%	3.1%	2.7%	2.8%
EPS	3.07	2.50	1.78	1.55	1.64
P/E	31.87	19.03	26.81	30.72	29.01
EV/EBITDA	14.02	5.59	6.38	6.03	5.59
ROA	4.5%	3.5%	2.4%	2.1%	2.2%
ROE	10.3%	6.2%	4.3%	3.7%	3.8%

Source: ARM Research *unless otherwise stated

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