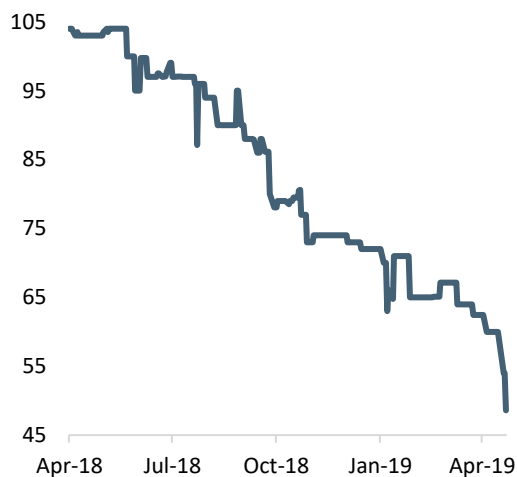


Rating	<b>BUY</b>
Price	₦48.6
52-week range	₦48.6–₦104
Market Cap. (₦'bn)	106.45
1-month Avg. Vol	366,884.5
Current PE	13.73x

#### NB: NL - Share Price Trend



#### Analyst(s)

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## Guinness Nigeria Plc (Guinness.NL)

### Initial View

#### Intense competition bite earnings

- The volume erosion which started in Q1 2019, persisted in the third quarter, with Guinness results yesterday showing decline in revenue by 3.8% YoY. Given the drag that emanated from the Lager and Ready to drink (RTD) volumes over the first six months of its reporting period, we do not rule out the possibility of same occurred over the review period. Similar to NB, Guinness bottom line was further pressured by slower decline in cost of sales and elevated operating expenses. In all, EPS declined 43.5% YoY to ₦0.76, which is in sync with our estimate (ARM Q3 19F: ₦0.79). Cumulatively, 9M 19 EPS dipped by 16.4% YoY to ₦1.94 on account of lower revenues over the period.
- Revenue soften on higher excise duty and competition:** Contrary to trend witnessed by its peer – NB, Guinness reported weaker net revenue of ₦39.7 billion (-3.8% YoY) over the third quarter. We link this to pass through effect of higher excise duty given its lower base last year and weaker beer volumes. Elsewhere, with cost of sales (-3.2% YoY) falling slower than revenue, gross profit dipped 5% YoY to ₦14.2 billion with related margin contracting 40bps to 32.8%. The slower moderation in cost of sales in our view mirrors higher barley prices (+9% YoY) and lower fixed cost absorption rate from loss of volume share.
- The company also faced cost pressure, as OPEX rose 9% YoY to ₦8.5 billion over Q3 19. This was mainly due to higher administrative and distribution spend over the period. To our minds, this reflects marketing and promotional efforts to support volumes. Consequently, EBIT dipped 33.2% YoY to ₦2.7 billion while related margin contracting 350bps to 8%.

- Further down, despite the lower interest rate environment, interest expense rose 39% YoY to ₦280 million. We note that the higher interest expense mirrors lower base from last year as interest expense in Q3 19 is ~3x lower than average interest expense of ₦728.9 million over the last three quarters. Consequently, PBT and PAT fell 43.5% YoY apiece to ₦2.5 billion and ₦1.7 billion respectively.
- In our last stock report (*[Guinness Nigeria Plc: A differentiation play](#)*), we highlighted that Guinness will have to contend with slower beer volumes due to intense industry competition. However, we painted a soft landing for overall volumes as management resorts to increasing spirits contribution to overall revenue in a bid to support margins. With our views playing out and our earnings estimate largely in line with the company's Q3 19 earnings (Actual: ₦0.76 vs ₦0.79 ARM Forecast) we leave our FVE unchanged at **₦77.31** which now translates to a **BUY** rating on the stock. GUINNESS trades at a P/E of 13.73x relative to 25.19x and 18.94x for NB and Bloomberg Mena peers respectively.

## Summary of Results and Forecast

Income statement – (₦'million)	FQ3 19	YoY growth	QoQ growth	Deviation	9M 19	9M 18	YoY growth
YE – June							
Revenue	33,606	-3.8%	-15.4%	-0.2%	101,402	105,484	-3.9%
Cost of sales	22,596	-3.2%	-20.2%	1.2%	69,898	69,899	0.0%
Gross profit	11,010	-5.0%	-3.3%	-3.0%	31,504	35,585	-11.5%
Operating expenses	8,461	9.4%	-2.6%	-2.2%	24,790	25,355	-2.2%
Operating profit	2,694	-33.2%	-9.5%	-8.0%	7,333	10,679	-31.3%
Net interest expense	235	-173.7%	N/M	-164%	1,080	2,788	-61.3%
Other operating income	145	-16.6%	-48.5%		618	449	37.6%
PBT	2459	-43.5%	-4.1%	-4.0%	6,252	7,892	-20.8%
PAT	1672	-43.5%	-4.1%	-3.3%	4,252	5,089	-16.4%
<b>Key Ratios</b>	<b>FQ3 19</b>	<b>FQ3 18</b>	<b>Change(pps)</b>		<b>9M 19</b>	<b>9M 18</b>	<b>Change(pps)</b>
Gross margins	32.8%	33.2%	-0.4%		31.1%	33.7%	-2.67%
EBIT margins	8.0%	11.5%	-3.5%		7.2%	10.1%	-2.89%
PBT margins	7.3%	12.5%	-5.1%		6.2%	10.1%	-3.96%
PAT margins	5.0%	8.5%	-3.5%		4.2%	7.5%	-3.29%
Effective tax rates	32.0%	32.0%	0.0%		32.0%	4.8%	27.18%

Source: ARM Research

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy other reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations types of communications, including an investment recommendation, during the course of ARM Securities' and/or engagement in an investment banking transaction and in certain other circumstances.

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