



Rating	STRONG BUY
Price	₦92.50
52-week range	₦84.00– ₦162.10
Market Cap. (₦'bn)	739.7
1-month Avg. Vol	1,628,547
Current PE	30.97x

NB: NL - Share Price Trend



Analyst(s)

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Nigerian Breweries Plc (NB.NL)

Initial View

Tough operating environment drives Q3 loss

- Nigerian Breweries (NB) posted its Q3 18 result late yesterday, reporting a loss after tax of ₦3.6 billion (vs. after-tax profit of ₦259 million in Q3 17). The lackluster performance pared earnings reported in earlier quarters, as cumulative earnings for the nine-month period was down 38.9% YoY to ₦14.8 billion, translating to an EPS of ₦1.85 (vs. ₦3.03 in 9M 17). ***On its 9M 18 earnings, the company declared an interim dividend of ₦0.60 (-40% YoY), representing a dividend yield of 0.65% based on current pricing.***
- Revenue slows on intense industry competition:** Over the third quarter, NB reported weaker net revenue of ₦65.4 billion (-11.2% YoY) on account of lower revenue (-8.8% YoY) and higher excise duty expense (+31.2% YoY). On revenue, the major pressure point was volumes as its parent company – Heineken – in a media release stated that Nigeria’s beer volume declined high single digit, driven by increased competitive pressure. This reflects the recent opening of International Breweries (IB)¹ Sagamu plant which added ~2.5 million hectoliters to its existing capacity, enabling the company to increase its presence in the country beyond the south-west which in turn inflicted pressure on the market share of other sector players including Nigerian Breweries. Adding to its woes was higher excise duty rates (+36% YoY) which couldn’t be passed on to consumers, also due to the competitive pressure from IB. We recall that in Q2 18, NB reversed product

¹ A subsidiary of Anheuser-Busch InBev

price hikes on its mainstream products – Goldberg and Life – following IB’s strategy to keep pricing unchanged on its mainstream products – Hero and Trophy despite the hike in excise duty rates.

- **Profitability margins contract sharply in Q3:** In the review quarter, gross profit declined 26.5% YoY to ₦18.6 billion while related margin contracted 592bps to 28.5%. This was mainly due to a slower decline in cost of sales (-3.2% YoY to ₦46.8 billion) despite the high single digit slowdown in volumes. We attribute the slow decline in cost of sales to the 11.9% YoY increase in barley – which is largely imported – as well as loss of economies of scale on account of lower volumes sold. To add, we believe the contraction in gross margin was impacted by a further change in its product mix - in terms of more sales of mainstream than premium products. The reported weaker gross profit was unable to cover operating expenses (+0.7% YoY to ₦22.7 billion) incurred over the period, leading NB to report an EBIT loss of ₦3.9 billion (vs. operating profit of ₦2.98 billion in Q3 17). However, EBITDA remained positive at ₦3.8 billion (-65.6% YoY) while related margin contracted 906bps to 5.7%.
 - Overall, we find NB’s third quarter performance disappointing and expect the trend of weaker margins to persist into the fourth quarter of 2018. It appears IB’s strategy to gain substantial footprint in Nigeria is to market beer products at affordable pricing and we believe this will continue to impact on profitability of NB via weaker sales volume and inability to hike product pricing, particularly for its mainstream products.
 - Our last communicated FVE on Nigerian Breweries is ₦121.46 which translates to a **STRONG BUY** rating on the stock. NB trades at a current P/E and EV/EBITDA of 30.97x and 9.52x relative to Bloomberg Mena peer average of 27.2x and 15.85x.
 - **More analysis to follow.**
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Summary of Results and Forecast

Income statement – (¥'million)	Q3 18	YoY growth	QoQ growth	Deviation from forecast	9M 18	YoY growth
Revenue	65,406	-11.2%	-27.1%	4.1%	238,066	9.8%
Cost of sales	(46,772)	-3.2%	-9.4%	24.5%	(143,350)	12.8%
Gross profit	18,634	-26.5%	-51.0%	3.9%	94,715	5.9%
OPEX	(22,737)	0.7%	-6.5%	3.9%	(67,632)	6.5%
Operating profit	(3,875)	N/M	N/M	N/M	27,742	8.0%
Finance expense	(1,200)	-54.0%	-27.4%	-29.3%	(5,267)	-20.7%
PBT	(5,074)	N/M	N/M	N/M	22,474	17.5%
PAT	(3,645)	N/M	N/M	N/M	14,790	16.3%

*N/M means not meaningful

Key Ratios	Q3 18	Q3 17	Change(pps)	9M 18	9M 17	Change(pps)
Gross margin	28.5%	34.4%	-5.9%	39.8%	41.9%	-2.1%
EBIT margin	N/M	4.0%	N/M	11.7%	16.6%	-5.0%
PBT margin	N/M	0.5%	N/M	9.4%	13.5%	-4.1%
PAT margin	N/M	0.4%	N/M	6.2%	9.4%	-3.2%
Effective tax rate	N/M	29.6%	N/M	34.2%	30.3%	3.9%

*N/M means not meaningful

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
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
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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