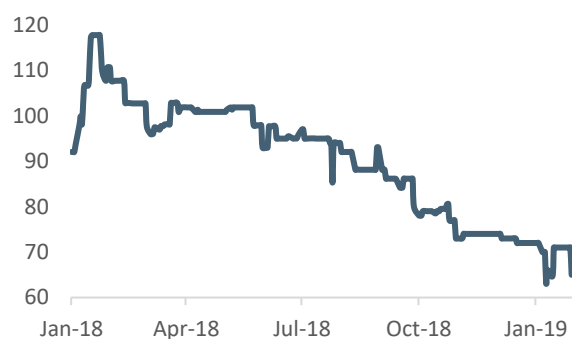




Rating	OVERWEIGHT
Price	₦65
52-week range	₦63– ₦117.7
Market Cap. (₦'bn)	142.37
1-month Avg. Vol	198,701.7
Current PE	18.36x

NB: NL - Share Price Trend



Analyst(s)

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Guinness Nigeria Plc (Guinness.NL)

Initial View

Heightened competition bite earnings

- Guinness Nigeria Plc (Guinness) posted its second quarter result for the period ended December 2018¹ wherein it reported moderation in earnings with EPS declining 16.5% YoY to ₦0.80. The slump in earnings reflects weak topline performance emanating from lower revenue and subsisting cost pressure over the period. However, on its 6M 19 earnings, GUINNESS grew PAT by 23% YoY to ₦2.58 billion following sharp drop in finance cost (-67.9% YoY to ₦1.54 billion) after paying down its foreign currency denominated loans with the proceeds of its ₦40 billion rights issue raised in its 2018 fiscal year.
- Revenue slows on intense industry competition:** Over the second quarter, Guinness reported weaker revenue of ₦39.7 billion (-2.3% YoY) on account of weaker Nigerian sales which reflects weaker volumes and higher excise duty rates, in our view. For clarity, the opening of International Breweries (IB)² Sagamu plant which added ~2.5 million hectoliters to its existing capacity, enabled IB to increase its presence in the country and market share, with the impact being felt on other sector players including Guinness. Further reflecting the industry rivalry, Guinness was unable to pass on the higher excise duty rates (+36% YoY) to customers following IB's decision to leave prices unchanged, thus imposing further pressure on revenue. In fact, reflecting the ongoing industry rivalry, management linked the mild revenue plunge (-2.5%) to strong support from spirits which grew double digit over the period.

¹ Financial year end is June 2019

² A subsidiary of Anheuser-Busch InBev

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- **Profitability margins weaken in Q2:** In the review quarter, gross profit declined 16.4% YoY to ₦11.4 billion while related margin contracted 483bps to 28.7%. Whilst management linked the higher cost of sales (COGs: +4.8% YoY to ₦28.3 billion) to continued inflationary pressure on raw material costs and lower fixed cost absorption, we think higher barley prices (+11% YoY) and higher cost per unit due to loss of diseconomies of scale following weaker volumes also imposed pressure on cost over the period. As a result, despite lower operating expense (-10.7% YoY to ₦8.7 billion), Guinness reported weaker EBIT (-25.5% YoY to ₦2.97 billion) with related margin contracting 230bps to 7.5%.
 - Further down, the confluence of lower finance expense and higher finance income drove Net finance expense lower (-17% YoY to ₦413.8 billion). To buttress, Guinness successfully completed ₦40 billion rights issue in its 2018 fiscal year. The bulk of the proceeds was used to pay down its foreign currency denominated loans which previously inflicted pressure on finance costs via higher interest expense and FX losses.
 - Our last communicated FVE on Guinness Nigeria Plc is ₦73.96 which translates to an **OVERWEIGHT** rating on the stock. GUINNESS trades at a P/E of 18.36x relative to NB of 26.1x.
 - **More analysis to follow.**

Conference call details:

- **Thursday, 31 January: 2019 2:00 PM-3:00 PM**
 - **Participant dial in: +44 (0) 20 3003 2666**
 - **Password: GuinnessNG**
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Summary of Results and Forecast

Income statement – (¥'million)	FQ2 19	YoY growth	QoQ growth	H1 19	H1 18	YoY growth
YE – June						
Revenue	39,702	-2.3%	41.3%	67,796	40,653	66.8%
Cost of sales	28,317	4.8%	49.2%	47,302	27,031	75.0%
Gross profit	11,385	-16.4%	25.0%	20,494	13,622	50.4%
Operating expenses	8,689	-10.7%	13.8%	16,328	9,729	67.8%
Operating profit	2,978	-25.5%	79.3%	4,638	3,998	16.0%
Net interest expense	-414	-100.0%	-100.0%	845	498	69.9%
PBT	2,564	-26.7%	108.6%	3,793	3,500	8.4%
PAT	1,744	-16.5%	108.6%	2,579	2,089	23.5%

Source: Company data

Key Ratios	FQ2 19	FQ2 18	Change(pps)
Gross margins	28.7%	33.5%	-4.8%
EBIT margins	7.5%	9.8%	-2.3%
PBT margins	6.5%	8.6%	-2.2%
PAT margins	4.4%	5.1%	-0.7%
Effective tax rates	32.0%	40.3%	-8.3%

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 engagement in an investment banking transaction and in certain other circumstances.

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