

Nigeria Breweries Plc. (NB.NL)

Rating	NEUTRAL
Price	₦46.05
FVE	₦76.58
52-week range	₦46-88
Market Cap. (₦mn)	386,257.3
1-month Avg. Vol	4,961,179
Curr. PE	21.55x

Initial View

NB growing sales at a higher cost

- Nigerian Breweries Plc released Q3 19 result last week, recording loss after tax of ₦1 billion (Q3 18 loss after tax of ₦3.6 billion). The poor earnings performance mirrors higher excise duty, elevated operating and finance expenses. The losses over Q3 19, trimmed 6M 19 EPS (₦1.63) to ₦1.53 over the first nine months of the year. On its 9M 19 earnings, the company declared an interim dividend of ₦0.50. Our full year dividend forecast of ₦2.58 translates to dividend yield of 6% at current pricing.
- NB growing sales, at a higher cost.** Akin to trend over the last three quarters, NB reported a 3% YoY growth in gross revenue to ₦73.2 billion, with management linking this to low-single digit growth in beer volumes and double-digit increase in the premium portfolio – driven by Heineken. However, on the heels of higher excise duty (+31% YoY to ₦7.7 billion), net revenue was largely flat at ₦65.4 billion from last year. On the positive, despite higher barley prices (+18% YoY), the company reported lower cost of sales (-12.4% YoY to ₦40.9 billion), which mirrors better economies of sales from higher beer volumes over the period. As a result, gross margin expanded to 37.4% in Q3 from 28.5% in Q3 18.
- While the company has successfully grown beer volumes despite intense industry competition, it has been doing so at a cost. For context over the last two quarters the company has reported OPEX to sales ratio higher than its historical average (5-year average: 26.8%). In fact, Q3 19 OPEX to sales of 36.9% is the highest since 2012. While this has resulted in positive sales growth over the last few quarters, we question the sustainability of this strategy going forward, as operating margins are nearing its trough (EBIT margin: 1.1% in Q3 19). Further exacerbating the weak operating profit, finance expense more than doubled, increasing to ₦2.9 billion (Q3 18: ₦1.2 billion) following increase in short term borrowings (+91% YoY to ₦32.8 billion).
- Despite growth in sales which have been the main pressure point for the company in time past, we question the sustainability of its higher operating expense and envisage either of the following in the coming quarters 1.) cut back its operating expenses 2.) increase in prices to compensate for higher excise duties or 3.) a combination of 1 and 2. Based on our last communicated FVE of ₦75.82, we have a BUY recommendation on the company. NB trades at a P/E of 21.5x relative to 12.22x and 18.97x for Guinness and Bloomberg MENA peers.

NB:NL - Share Price Trend



Analyst

Damilola Olupona

damilola.olupona@arm.com.ng

Summary of Results

Income statement – (N'million)	Q3 19	Q3 18	YoY growth	QoQ Growth	9M 19	YoY growth
YE – Dec						
Revenue	65,488	65,406	0.1%	-24.7%	235,679	-1.0%
Cost of sales	-40,966	-46,772	-12.4%	-18.6%	(139,506)	-2.7%
Gross profit	24,522	18,634	31.6%	-33.0%	96,173	1.5%
Operating expenses	-24,165	-24,323	-0.6%	-8.7%	(71,776)	6.1%
Operating profit	710	-3,875	-118.3%	-93.2%	25,173	17.8%
Net interest expense	-2,897	-1,200	141.5%	18.1%	(7,951)	51.0%
PBT	-2,188	-5,074	-56.9%	-127.5%	17,222	-23.4%
PAT	-1,043	-3,645	-71.4%	-119.7%	12,275	-17.0%

Key Ratios	Q3 19	Q3 18	Change(pps)	9M 19	9M 18	Change(pps)
Gross margins	37.4%	28.5%	9.0%	40.8%	39.8%	1.0%
EBIT margins	1.1%	-5.9%	7.0%	10.7%	10.9%	-0.2%
PBT margins	-3.3%	-7.8%	4.4%	7.3%	8.8%	-1.5%
PAT margins	-1.6%	-5.6%	4.0%	5.2%	5.8%	-0.6%
Effective tax rates	52.3%	28.2%	24.2%	28.7%	34.2%	-5.5%

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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