

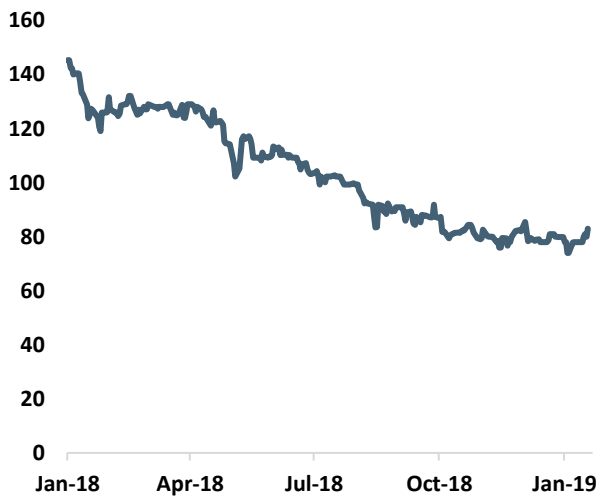
Nigerian Breweries Plc (NB.NL)

Initial View

Intense competitive landscape plunge earnings

| | |
|--------------------|-------------|
| Rating | SELL |
| Price | ₦83.00 |
| 52-week range | ₦74– ₦136 |
| Market Cap. (₦'bn) | 658.1 |
| 1-month Avg. Vol | 1,884,858.2 |
| Current PE | 24.5x |

NB: NL - Share Price Trend



Analyst(s)

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- Full-year 2018 result of Nigerian Breweries (NB) released this morning showed EPS decline of 41.2% YoY to ₦2.43 (2017: ₦4.13) largely on the back of decline in gross profit (-11.6% YoY to ₦127 billion) which masked the moderation in operating expense (-2.5% YoY to ₦90.8 billion). Notwithstanding, the company declared a final dividend per share of ₦1.83 which in addition to the interim dividend of ₦0.60 amounts to a total dividend of ₦2.43 (vs. ₦4.13 in FY 17). Final dividend implies a dividend yield of 2.2% based on last trading price.
- Contrary to the ₦3.7 billion loss posted in Q3 18, the company returned to profit in Q4 18 with EPS of ₦0.58. However, in relation to same period in the prior year, Q4 18 EPS is down 48.6% YoY due to higher cost of sales (+2.1% YoY to ₦54.1 billion) and higher operating expenses (+4.4% YoY to ₦23.2 billion).
- In line with trend over the last five quarters, NB revenue decline 4% YoY to ₦95.2 billion, which adjusted for the higher excise duty expense (+56% YoY to ₦8.9 billion) resulted in lower net revenue (-0.4% YoY to ₦95.2 billion) over Q4 18. On revenue, the pressure points remain volumes as its parent company in a media release stated that while the main Premium product (Heineken) grew double digit in Nigeria, Low and Non-Alcoholic volumes were adversely impacted by the weak macroeconomic environment and SKU rotation. This in our view reflects the stiff competition from International Breweries (IB) which impacted beer volumes for NB and limited scope for price hikes in the wake of higher excise duties.

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- Reflecting the limited scope for pass-through of the higher excise duty to consumers, gross profit declined 12.7% YoY to ₦32.2 billion while related margin contracted 720bps to 33.8%. This was mainly due to higher cost of sales (+2.1% YoY to ₦54.1 billion) – a reflection of the 11% YoY increase in barley, which is largely imported – as well as loss of economies of scale on account of lower volumes sold. In addition, the company also faced cost pressure from its operating activities as OPEX rose 4.4% YoY to ₦23.2 billion over Q4 18. This mainly reflects higher selling and distribution expenses, which in our view echoes management’s marketing and promotional efforts to support weakening volumes. Consequently, EBIT dipped 37.9% YoY to ₦9.2 billion while related margin contracted 680bps to 9.7%.
 - Our last communicated FVE on Nigerian Breweries is ₦76.58 which translates to a SELL rating on the stock. NB trades at a current P/E of 26.08x relative to Guinness and Bloomberg Mena peer average of 18.23x and 24.5x respectively.
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Summary of Results and Forecast

| Income statement – (₹'million) | Q4 18 | Q4 17 | YoY growth | QoQ Growth | FY 18 | YoY growth |
|--------------------------------|----------------|---------|------------|------------|------------------|------------|
| YE – Dec | | | | | | |
| Revenue | 86,323 | 89,873 | -3.9% | 32.0% | 324,389 | -5.9% |
| Cost of sales | -54,134 | -53,013 | 2.1% | 15.7% | (197,485) | -1.8% |
| Gross profit | 32,188 | 36,859 | -12.7% | 72.7% | 126,904 | -11.6% |
| Operating expenses | -23,205 | -22,223 | 4.4% | 2.1% | (90,838) | 2.5% |
| Operating profit | 9,210 | 14,824 | -37.9% | N/M | 36,952 | -35.3% |
| Net interest expense | -2,262 | -2,622 | -13.7% | 88.6% | (7,530) | -28.2% |
| PBT | 6,948 | 12,202 | -43.1% | N/M | 29,422 | -36.9% |
| PAT | 4,648 | 9,038 | -48.6% | N/M | 19,438 | -41.2% |

| Key Ratios | Q4 18 | Q4 17 | Change(pps) | FY 18 | 9M 17 | Change(pps) |
|----------------------------|-------|-------|-------------|-------|-------|-------------|
| Gross margins | 37.3% | 41.0% | -3.7% | 39.1% | 41.7% | -2.5% |
| EBIT margins | 10.7% | 16.5% | -5.8% | 11.4% | 16.6% | -5.2% |
| PBT margins | 8.0% | 13.6% | -5.5% | 9.1% | 13.5% | -4.5% |
| PAT margins | 5.4% | 10.1% | -4.7% | 6.0% | 9.6% | -3.6% |
| Effective tax rates | 33.1% | 25.9% | 7.2% | 34.2% | 29.1% | 5.1% |

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 |
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