



Rating	SELL
Price	₦64
52-week range	₦56.7– ₦130
Market Cap. (₦'bn)	511.8
1-month Avg. Vol	2,511,577
Current PE	29.3x

NB: NL - Share Price Trend



Analyst(s)

Damilola Olupona

damilola.olupona@arm.com.ng

Nigerian Breweries Plc (NB.NL)

Initial View

Cost pressures mar earnings

- Nigerian Breweries released Q1 2019 earnings late yesterday, which confirmed our view of further hurt to earnings from excise duty which took effect in June 2018, given the intensive competition in the breweries space which limits the ability of players to transfer the full impact to consumers. Coupled with increases in raw materials (Barley specifically) and higher marketing spend, NB's Q1 2019 profit after tax contracted 21.3% YoY to ₦8.03 billion (EPS: ₦1.00).
- Higher excise duty erodes higher sales:** Over the first quarter of 2019, revenue grew 3% YoY to ₦91.4 billion. This reflects double digit growth in its premium brand and beer volume. Specifically Q1 19 trading update from its parent company, guided to double digit growth in Heineken brand. In the beer segment volume grew mid-single digit during the quarter. However, following higher excise duty (+48% YoY to ₦8.1 billion) over the period, net revenue grew 0.4% YoY to ₦83.3 billion.
- Higher raw material and operating costs depress margins:** Reflecting limited pass through of the higher excise duty to consumers and increase in production cost (+7.3% YoY to ₦48.3 billion) over the quarter, a fallout of increase in global barley prices (+9% YoY), gross profit declined 7.8% YoY to ₦35.1 billion with related margin contracting 460bps YoY to 38.4%. In addition, the company also faced cost pressure from its operating activities as OPEX rose 2.8% YoY to ₦21.2 billion over Q1 19. This mainly reflects higher selling and distribution expenses, which in our view echoes management's marketing and promotional efforts to

support volumes. Consequently, EBIT dipped 20.4% YoY to ₦14.1 billion while related margin contracted 460bps to 15.4%.

- Despite the lower interest rate environment, finance expense rose 6.4% YoY to ₦2.6 billion over the period. This was driven by 8% YoY expansion in loans and borrowings to ₦44.3 billion. Consequently, PBT and PAT declined 24.9% and 21.3% respectively to ₦11.5 billion and ₦8 billion respectively.
 - In our stock update published last month (See report: ***Bleak outlook as fresh pressure points kick in***), we guided to a strong growth in Heineken volumes as well as slight recovery in its Mainstream and affordable beer to support revenues (+0.8% YoY) over 2019. Accordingly, our expectation for higher volumes which paves way for better economies of scale informs our 1.1% moderation in cost to sales over 2019 (₦195.3 billion) which translates to a gross margin expansion of 120bps YoY to 40.3% over 2019. We also raised our 2019 finance cost by 37% YoY to 10.9 billion over 2019. With key lines in NB's Q1 19 earnings tracking in line with our estimates, we leave our FVE unchanged for Nigerian Breweries at **₦75.82** which now translates to an **OVERWEIGHT** (Previously: SELL at market pricing of ₦80.00) rating given current pricing (declined 25% since our last update). NB trades at a current P/E of 25.19x relative to Guinness and Bloomberg Mena peer average of 15.14x and 18.94x respectively.
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Summary of Results and Forecast

Income statement – (N' million)	Q1 19	Q1 18	YoY growth	QoQ Growth	Q1 19	YoY growth
YE – Dec						
Revenue	83,278	82,966	0.4%	32.0%	83,278	0.4%
Cost of sales	-48,223	-44,948	7.3%	15.7%	(48,223)	7.3%
Gross profit	35,054	38,018	-7.8%	72.7%	35,054	-7.8%
Operating expenses	-21,154	-20,572	2.8%	2.1%	(21,154)	2.8%
Operating profit	14,057	17,664	-20.4%	N/M	14,057	-20.4%
Net interest expense	-2,599	-2,415	7.6%	88.6%	(2,599)	7.6%
PBT	11,458	15,249	-24.9%	N/M	11,458	-24.9%
PAT	8,026	10,204	-21.3%	N/M	8,026	-21.3%

Key Ratios	Q1 19	Q1 18	Change(pps)	Q1 19	Q1 18	Change(pps)
Gross margins	42.1%	45.8%	-3.7%	42.1%	45.8%	-3.7%
EBIT margins	16.9%	21.3%	-4.4%	16.9%	21.3%	-4.4%
PBT margins	13.8%	18.4%	-4.6%	13.8%	18.4%	-4.6%
PAT margins	9.6%	12.3%	-2.7%	9.6%	12.3%	-2.7%
Effective tax rates	30.0%	33.1%	-3.1%	34.2%	33.1%	1.1%

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
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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