



## Nigerian Breweries Plc. (NB.NL)

### Initial View

### A disappointing end to the year

**Similar to what we saw in Q320, Nigerian Breweries (NB) recorded a strong YoY growth of 18% in their revenue which printed at ₦103 billion over Q420. However, cost of sales grew by an astonishing 42% which dragged gross profit down by 18%YoY to ₦28.74 billion. Despite a 14%YoY fall in OPEX, the sharp increase in cost of sales meant that EBIT fell 30%YoY to ₦7.11 billion. Higher finance costs led net finance expense higher by 67%YoY which in turn helped bring PBT lower by 90%YoY to ₦599 million.**

Rating	NEUTRAL
Price	₦58.70
FVE	₦53.20
52-week range	₦22.00 – ₦63.25
Market Cap (₦bn)	469.418
1-month Avg. Vol	274,301
Current. PE	63.61

### NB:NL - Share Price Trend



### Analyst

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- Rising costs overshadow revenue growth:** Revenue grew for a second consecutive do you mean second consecutive quarter in Q420 by 18%YoY to print at an impressive ₦103 billion. The price increase from earlier this year most certainly played a part in the higher revenue but until we speak to management during their conference call it is tough to determine what role, if any, quantity played during the quarter. However, the main story from the top line is the 42%YoY growth in cost of sales to ₦74.26 billion. This gives a cost-to-sales margin of 72% which is comfortably the highest NB have reported in the past 8 years. Leading this rise in costs was a 39%YoY increase in the cost of raw materials to ₦50 billion, a result of the rising inflation and currency depreciation. There was also a charge of ₦5.42 billion for variable lease expenses which was not there last year while the cost for repairs and maintenance doubled to ₦4.95 billion. Gross profit fell 18%YoY to ₦28.74 billion which translates to a margin of 28% (Q419: 40%).
- While cost of sales is seemingly spiraling out of control, NB appear to have a firm grip on OPEX which declined on a YoY basis for the 3<sup>rd</sup> consecutive quarter. In Q420, OPEX declined by 13.5%YoY to ₦21.87 billion, a margin of 21% (Q419: 29%). This fall came as both S&D (-8.2%YoY) and administrative costs (-34.4%YoY) declined over the period. EBIT printed at ₦7.1 billion, a 29%YoY fall when compared to Q419's ₦10.03 billion, which represents an EBIT margin of 7% (Q419: 12%).
- NB's net finance cost rose 67%YoY to ₦6.52 billion following the undesirable combination of declining finance income (-7.2%YoY) and rising finance expense (+66.4%YoY). The former was as a result of lower interest from bank deposits while the latter arose from a higher net loss on FX transactions and interest on lease liabilities.

These led PBT lower by 90%YoY to ₦599 million while PAT was lower by 93%YoY at ₦429 million.

- **Combing through the balance sheet** we see that NB halved their receivables QoQ to ₦11.42 billion while payables rose by 25% to ₦139.2 billion. Cash and cash equivalents fell by 44% between the end Q320 and Q420 to ₦30.37 billion on the back of higher VAT paid and acquisition of PPE. Elsewhere, deposit for imports, which represent Naira deposits for foreign currencies purchased for funding of letters of credit and forwards, almost quadrupled to ₦11.58 billion (Q320: ₦3.76 billion).
  - **Looking at the whole of FY20**, revenue grew by 4.3% to ₦337.04 billion (FY19: ₦323 billion) which is the highest revenue they have posted since 2017. According to parent company Heineken, this was supported by volume growth with premium beer, led by Tiger and Heineken, experiencing a double-digit growth. Additionally, prices are higher when compared to last year. But an 18.9% spike in cost of sales meant gross profit came in 10% lower at ₦118.69 billion (FY19: ₦131.25 billion) which translates to a gross profit margin of 35% (FY19: 40%). OPEX was 7.4% lower on a YoY basis but EBIT still declined by 16%YoY to ₦29.61 billion. The corresponding margin of 9% is the lowest margin we have in our records for NB. Net finance cost rose 52% over the period leading PBT 50% lower at ₦11.58 billion while PAT printed at ₦7.37 billion.
  - Our current FVE for Nigerian Breweries is ₦53.20 but after getting clarity from management on these results during their conference call this Friday we will likely be adjusting our estimates. In the meantime, we place a **NEUTRAL** recommendation on the stock.
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## Summary of Results and Forecasts

QUARTERLY					
Income Statement (N'000) *	Q419	Q120	Q220	Q320	Q420
Revenue	87,328,037	83,204,327	68,651,759	82,228,896	103,007,480
COGS	52,250,072	48,334,963	44,379,706	51,422,855	74,264,074
Gross Profit	35,077,965	34,869,364	24,272,053	30,806,041	28,743,406
Operating Cost	25,275,138	24,136,166	20,293,057	23,614,090	21,870,604
Operating Profit	10,032,753	10,914,560	4,131,764	7,443,787	7,114,891
Interest Income	32,080	7,944	115,841	92,721	29,777
Interest Expense	3,934,937	2,646,641	4,177,838	4,904,663	6,545,597
PBT	6,129,896	8,275,863	69,767	2,631,845	599,071
Tax	2,299,179	2,770,311	14,146	1,281,736	170,275
PAT	3,830,717	5,505,552	55,621	1,350,109	428,796
Balance Sheet (N '000) *	Q419	Q120	Q220	Q320	Q420
Fixed Assets	310,248,537	323,422,780	326,517,130	338,957,954	352,526,790
Inventories	38,520,328	40,885,215	40,045,515	42,906,709	36,087,210
Receivables	21,307,218	28,608,692	32,858,347	24,060,761	11,417,423
Liabilities					
Payables	102,782,561	100,334,419	97,250,295	111,030,790	139,200,670
Non-current Liabilities	75,498,612	57,018,511	60,654,864	73,983,521	74,210,570
Total liabilities	215,027,543	258,103,803	303,227,445	304,940,510	284,642,306
Shareholders' fund	167,749,979	173,303,175	160,891,616	162,289,367	161,179,042
Key Ratios	Q419	Q120	Q220	Q320	Q420
Gross Margin	40.2%	41.9%	35.4%	37.5%	27.9%
EBIT Margin	11.5%	13.1%	6.0%	9.1%	6.9%
PBT Margin	7.0%	9.9%	0.1%	3.2%	0.6%
PAT Margin	4.4%	6.6%	0.1%	1.6%	0.4%
EPS	0.48	0.69	0.01	0.17	0.05

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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:

<b>TOP 20</b>		<b>NON-TOP 20</b>	
<b>Rating</b>	<b>Deviation</b>	<b>Rating</b>	<b>Deviation</b>
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

<b>RECOMMENDATION KEY</b>	
<b>Rating</b>	<b>Recommendation</b>
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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