



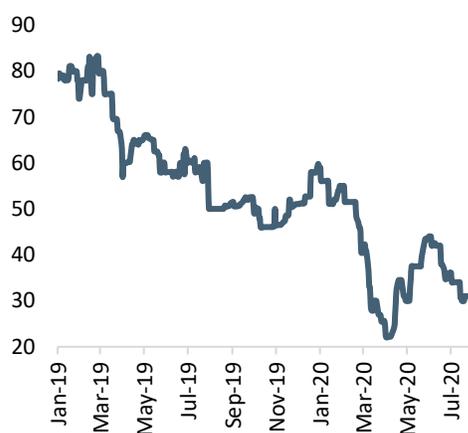
Nigerian Breweries Plc. (NB.NL)

Stock report

Sharp earnings decline, outlook remains bleak

Rating	NEUTRAL
Price	₦31.00
FVE	₦36.69
52-week range	₦22.00 – ₦59.75
Market Cap (₦bn)	247.90
1-month Avg. Vol	6,544,855
Current. PE	28.55

NB:NL - Share Price Trend



Analyst

Temitayo Peters

temitayo.peters@arm.com.ng

Prior to now, we predicted a double-digit decline in NB's volumes over Q2 20 on the back of lockdown measures imposed to control the spread of the coronavirus. True to our expectation, the recently released financials from parent company Heineken confirmed that was the case for beer volumes. Overall, beer volume for Africa declined 15.9% YoY over Q2, with Heineken confirming that beer volume in Nigeria declined in the 'low-teens'. The effect on NB's financials was a 21% YoY fall in net revenue to ₦68.65 billion, which was in line with our expectation and a 99% YoY decline in PAT to ₦55.62 million. Meanwhile, we expect QoQ steady improvements over the remaining two quarters of the year following the gradual lifting of restrictions. However, we still expect volumes to decline on a YoY basis. We maintain our NEUTRAL rating on NB with a FVE of ₦36.69.

- Beer volumes bear the brunt of the lockdown:** While beer volumes declined in the 'low-teens' over Q2 20, Heineken confirmed that volumes for non-alcoholic drinks, particularly Maltina, came in flat for the period. The premium portfolio (including Tiger and Heineken), meanwhile, recorded a 'mid-single digit' growth over the period. As a result of the sharp fall in beer volumes, NB recorded a 21% YoY fall in net revenue to ₦68.85 billion (Q2 19: ₦86.91 billion). Cost of sales also declined, but at a lower rate of 11.8% and this decline came on the back of an 8.8% YoY fall in raw materials (as barley prices fell 33% over the year) and a 53.9% fall in the cost of repairs and maintenance. The combined effect of the steeper fall in revenue compared to cost resulted to a 33.7% drop in gross profit to ₦24.27 billion (Q2 19: ₦36.6 billion), which translates to a gross profit margin of 35.4% (Q2 19: 42.1%).
- Furthermore, net finance cost jumped by 65.6% reflecting an increase in finance costs (58.1% YoY) arising from increased borrowings. Over the period, total debt increased 146% YoY to print at ₦139.35 billion. Consequently, both PBT and PAT declined 99% YoY to ₦69.77 million and ₦55.62 respectively.

- **Cash balloons to new heights:** Looking at the balance sheet we see that NB's cash balance rose 132.3% from the end of Q1 20 (€24.58 billion) to €57.1 billion by the end of Q2 20. That level of cash is the highest we've seen since we started our coverage in 2013 and largely arose from the increased borrowing we saw over the period which included €37.36 billion in commercial papers issued in April. This borrowing was necessary to support the business over a period where revenue from operations took a significant hit.
- Elsewhere, receivables were up 15% to €32.86 billion (Q1 20: €28.61 billion) as distributors felt the squeeze from the lockdown. However, somewhat surprisingly, payables was down slightly by 3% to €97.25 billion (Q1 20: €100.33 billion).
- Comparing on a half year basis, net revenue declined 10.8% YoY to €151.81 billion (H1 19: €170.19 billion) while cost of sales fell by a lower rate of 6% YoY to €92.67 billion (H1 19: €98.54 billion). This translated to a lower gross profit over H1 20 of €59.14 billion, a 17.5% YoY decline from H1 19's €71.65 billion. Looking at the other costs, OPEX came in 6.7% lower in H1 20 at €44.43 billion (H1 19: €47.61 billion) while net finance costs rose 33% to €6.7 billion (H1 19: €5.05 billion). Cumulatively, these resulted in a 57% YoY decline in PBT to €8.35 billion (H1 19: €19.41 billion).
- We maintain our recommendation for NB at a **NEUTRAL** rating with the FVE also unchanged at **€36.69**. Our stance is based on our expectation for lower YoY sales but QoQ improvements going forward. NB's performances coming in line with our expectations coupled with Heineken confirming that NB's beer volumes outperformed the market and increased its market share explains our decision to leave our ratings unchanged

...

Summary of Results and Forecasts

ANNUAL					
Income Statement (N'000) *	2018	2019	2020E	2021E	2022E
Revenue	324,388,500	323,007,470	305,242,059	348,719,688	364,412,074
COGS	197,484,694	191,756,513	195,354,918	219,693,404	222,291,365
Gross Profit	126,903,806	131,250,957	109,887,141	129,026,285	142,120,709
Operating Cost	90,837,622	97,050,643	96,456,491	109,149,262	113,332,155
Operating Profit	36,951,548	35,205,600	14,346,377	20,923,181	29,881,790
Interest Income	361,923	260,700	264,429	222,926	462,303
Interest Expense	7,891,519	12,114,546	10,176,649	11,772,657	12,026,554
PBT	29,421,952	23,351,754	4,434,157	9,373,451	18,317,539
Tax	9,984,008	7,245,842	1,418,930	2,999,504	5,861,613
PAT	19,437,944	16,105,912	3,015,227	6,373,946	12,455,927
Balance Sheet (N '000) *	2018	2019	2020E	2021E	2022E
Fixed Assets	203,492,850	201,907,332	173,583,036	169,546,897	164,987,679
Inventories	32,506,824	38,520,328	42,978,082	45,037,148	42,235,359
Receivables	35,153,451	21,307,218	35,102,837	33,128,370	25,508,845
Liabilities					
Payables	114,151,861	102,782,561	111,352,303	119,732,905	115,591,510
Non-current Liabilities	72,023,707	75,498,612	76,522,246	77,671,535	79,299,896
Total liabilities	221,434,417	215,027,543	231,351,406	242,059,132	238,309,371
Shareholders' fund	166,828,452	167,749,979	194,171,665	194,171,665	194,171,665
Key Ratios	2018	2019	2020E	2021E	2022E
Gross Margin	39.1%	40.6%	36.0%	37.0%	39.0%
EBIT Margin	11%	11%	4.7%	6%	8%
PBT Margin	9%	7%	1%	3%	5%
PAT Margin	6%	5%	1%	2%	3%
EPS	2.43	2.01	0.38	0.80	1.56

Source: ARM Research, NSE

Ratings, Disclosure & Disclaimer - [Click here](#)