

## Nigerian Breweries Plc. (NB.NL)

Rating	<b>NEUTRAL</b>
Price	₦32.00
FVE	N/A
52-week range	₦22.00- ₦66.10
Market Cap. (₦'bn)	255.90
1-month Avg. Vol	3,586,197
Curr. PE	15.75

### NB.NL – Share Price Trend



### Analyst(s)

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### Initial View

#### Higher OPEX leads to steep profit decline

- Nigerian Breweries published their Q120 results late last night and it showed a 27.8% YoY decline in PBT to ₦8.28 billion which came despite the top lines of revenue and cost remaining almost unchanged with YoY growth of -0.1% and 0.2% respectively. Instead, the steep decline in profit was due to a sharp rise (14.1% YoY) in OPEX as well as increase in net interest expense (1.5% YoY).**
- Revenue withstands late fall in volumes:** In the conference call to discuss the FY19 result, management commented that they would be increasing prices in February to pass on the higher VAT to the consumer. The parent company, Heineken, commented in the Q120 results that the increase in price, coupled with a ban on the distribution of alcoholic drinks in some states, led to a “high single digit” decline in beer volumes in March. Nevertheless, Heineken confirmed that for the quarter as a whole volumes were broadly flat and this can explain the slight 0.1% decline in net revenue to ₦83.2 billion. Meanwhile, cost of sales rose 0.2% to ₦48.3 reflecting a 12% increase in depreciation and a 2% increase in amortization costs as raw material costs fell over the review period. Overall, gross profit was 0.5% lower at ₦34.87 billion with gross profit margin relatively flat at 41.9% (vs 42.1% in Q1 19).
- Higher commercial spending leads OPEX higher:** On the aforementioned conference call, NB management made reference to the high commercial spending (S&D) and how they expected that to persist this year. Consequently, S&D, which makes up c.80% of OPEX, rose 13.5% YoY on the back of a 48% YoY jump in advertising. Admin costs, which makes up the other 20% of OPEX, was 16% higher YoY pushing OPEX up by 14.1% to ₦24.14 billion. A 15.4% YoY rise in other income was not enough to stop EBIT declining by 22.4% to ₦10.14 billion which translates to a contraction in related margin to 13.1% (vs 16.9% in Q119).
- Elsewhere, net finance costs rose by 1.5% YoY to ₦2.64 billion following the unenviable combination of a rise in finance costs (1.5%) and a fall in finance income (15.8%). Clearly, increased borrowings (119.8% YoY, 76.8% QoQ) led to an increase in finance cost. Overall, PBT was 27.8% lower at ₦8.28 billion while PAT fell by 31.4% to ₦5.51 billion.

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- Looking at the balance sheet our attention is drawn to a 72.7% YoY increase in cash and cash equivalents to  $\text{¥}24.58$  billion, which largely reflects the proceeds from new borrowings . These borrowings included a  $\text{¥}51.06$  billion commercial paper and  $\text{¥}22$  billion revolving credit facility obtained from banks.
  - Overall, we believe the ongoing national lockdown, which is expected to take a toll on revenue, the technical devaluation as well as disruption to supply logistics poses a downside risk to the company earnings over 2020. We will therefore revise our estimates which will be communicated soon and until then we are setting our recommendation as **NEUTRAL**.
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## Summary of Results and Forecasts - N'm

QUARTERLY					
Income Statement (N'm) *	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
Revenue	83,277	86,914	65,488	87,328	83,204
COGS	48,223	50,317	40,966	52,250	48,335
Gross Profit	35,054	36,596	24,522	35,078	34,869
Operating Cost	21,154	26,456	24,165	25,275	24,136
Operating Profit	14,057	10,406	709	10,032	10,915
Interest Income	9	189	30	32	7
Interest Expense	2,608	2,642	2,927	3,934	2,646
PBT	11,457	7,953	-2,187	6,130	8,276
Tax	3,432	2,656	-1,145	2,299	2,770
PAT	8,025	5,298	-1,043	3,830	5,506
Balance Sheet (N '000) *	3M 19	6M 19	9M 19	12M 19	3M 20
Fixed Assets	300,880	298,275	300,726	310,248	323,422
Stocks	34,818	35,945	41,596	38,520	40,885
Trade debtors	35,319	36,792	29,832	21,307	28,609
<b>Liabilities</b>					
Trade Creditors	101,819	96,580	82,265	102,783	100,334
Non-current Liabilities	83,379	78,827	79,613	75,499	57,019
Total liabilities	213,084	221,516	217,260	215,027	258,103
Shareholders' fund	174,920	165,226	164,249	167,750	173,303
Key Ratios	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
Gross Margin	42.1%	42.1%	37.4%	40.2%	41.9%
EBIT Margin	16.9%	12.0%	1.1%	11.5%	13.1%
PBT Margin	13.8%	9.2%	-3.3%	7.0%	9.9%
PAT Margin	9.6%	6.1%	-1.6%	4.4%	6.6%
EPS	1.00	0.66	-0.13	0.48	0.69

## 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
<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%		

RECOMMENDATION KEY	
Rating	Recommendation
<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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