

## Nigerian Breweries Plc. (NB.NL)

### Stock Report

Rating	<b>SELL</b>
Price	₦80.00
FVE	₦75.82
52-week range	₦74-₦136
Market Cap. (₦bn)	639.75
1-month Avg. Vol	3,115,100
Current PE	27.1x

Quarterly EPS	Q1	Q2	Q3	Q4
2017 A	1.44	1.55	0.03	1.13
2018 A	1.28	1.03	-0.46	0.58
2019 E	0.75	0.79	0.50	0.83

#### NB:NL - Share Price Trend



Analyst(s)

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**Click link below for recent report on NB**

**FY 2018 Initial View:** *Intense competitive landscape plunge earnings*

### *Bleak outlook as fresh pressure points kick in*

- Following its FY 18 result, management of Nigerian Breweries Plc (NB) hosted an analyst call where it provided insight into the strategic outlook of the firm over 2019. Despite paucity of insights into the numbers, the key take-away was management's guidance to raise product prices this year.
- After a tough financial year that sunk share price and earnings to multi-year lows in 2018, NB is faced with yet another challenging year. First off, with intense competition from International Breweries (IB) and graduated excise duty (+17% YoY) that kicked-off in Jan-19, revenue growth is expected to be slow even as we expect higher finance cost (+38% YoY) to be another pressure point to earnings this year. However, given our case for a slight improvement in volumes and decline in cost of sales (-1.1% YoY) which translates to gross (+120bps YoY) and EBIT (+101bps YoY) margin expansion, the misery seems moderated. Overall, the net impact of all our adjustments translates to PBT of ₦29.9 billion and EPS of ₦2.58 (+6.3% YoY) over 2019. Consequently, we cut our FVE on NB to ₦75.82 (previous: ₦76.58), translating to a SELL rating on the stock based on current pricing. On our numbers, NB trades at a 2019 P/E of 27.1x (5-year historical average of 33.6x) relative to Guinness of 18.96x.

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- ***Price hikes: a flattery or adulation?*** At its FY 18 analyst call, management guided to raising prices to provide buffer against the graduated excise duty (+17% to ₦0.35/cl) which commenced in January 2019. While the higher excise duty provides premise for a price hike, we think the decision to raise prices on its mainstream products cannot be done in isolation. Particularly, given the turn of events last year where NB reversed price hike on its mainstream – Goldberg and Life following IB’s decision to leave prices unchanged, we think NB’s decision to pass-on excise duty hikes to consumers lies with IB’s resolve to tow similar path. However, we see possible reluctance by IB’s to take in price increases over the near term following its strategy to gain market share in order to increase its fixed cost absorption rate at its new brewing plan in Sagamu. Thus, while we see room for possible price increases across NB’s Premium and Non-Alcoholic products, we rule out any price increases by on its mainstream products in 2019.
  - ***Mild revenue expansion in sight.*** On volumes, given that Mainstream and affordable beer which currently accounts for a major share of its volume is in direct competition with IB’s Trophy and Hero – which contributes the most to IB’s volume, we still see scope for weaker volumes growth in its mainstream segment this year, albeit moderated compare to last year due to our expected improvement in consumer wallet coming from the proposed minimum wage increase from ₦18,000 to ₦27,000. In the premium segment, we remain optimistic of volume growth as Heineken continues to put up a good showing. Accordingly, we forecast a tamer 0.8% YoY growth in net revenue to ₦327.1 billion over 2019, lower than average revenue growth of 9% over the past five years.
  - ***Scope for margin expansion.*** We forecast FY 19E cost of sales to decline 1.1% YoY to ₦193.2 billion following absence of one-off induced right sizing expense that drove Cost of goods sold (COGS) higher in Q4 18. In addition, our expectation for a slight recovery in volumes which paves way for an economies of scale is positive for COGS over 2019. Accordingly, we forecast gross margin expansion of 180bps YoY to 41% in 2019.
  - In a bid to further entrench its market presence and channel its product directly to final consumers, management plans to sustain its Sell-in marketing strategy over 2019 which in our view would necessitate higher marketing expenses (+2.7% YoY). Hence, we still maintain our view for higher operating expenses over 2019 (+2.3% YoY to ₦92.9 billion) with OPEX to sales ratio of 28.4% (FY 18: 28%). However, due to a faster expansion in gross margin we forecast a 100bps expansion in EBIT margin to 12.4%, lower than 5-year historical EBIT average of 18.2%.
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- ***We forecast higher finance expense over 2019.*** Following the drawdown of its revolving facility over 2018, we have raised borrowings by 6% to ₦43.5 billion. Coupled with expectation of slight depreciation of the Naira (we see a 3-5% depreciation this year) we raise our 2019E finance cost by 37% to ₦10.9 billion over 2019 and net finance cost of ₦10.6 billion. Over all despite our higher net finance cost on account of upward adjustment to borrowings, our forecast translates to FY 19E EPS of ₦2.58 (FY 18: ₦2.43). In line with historical trend of 100% dividend payout, we forecast dividend yield of 3%.
  - Following adjustment to our forecast, we cut our FVE on NB to ₦75.82 (previous: ₦76.58) which translates to a **SELL** rating on the stock based on current pricing. On our numbers, NB trades at a 2019 P/E of 27.1x (5-year historical average of 33.6x) relative to Guinness of 18.96x.
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## ANNUAL

Income Statement (N'm)	2017A	2018A	2019E	2020F	2021F
Revenue	344,563	324,389	327,141	336,100	343,237
COGS	201,013	197,485	195,303	194,938	195,645
Gross Profit	143,549	126,904	131,838	141,162	147,592
Operating Cost	88,647	90,838	92,908	92,091	90,271
Operating Profit	57,121	36,952	40,565	50,079	58,350
Interest Income	172	362	307	184	156
Interest Expense	10,663	7,892	10,916	9,126	8,545
PBT	46,630	29,422	29,956	41,137	49,962
Tax	13,581	9,984	9,287	13,164	15,988
PAT	33,049	19,438	20,670	27,973	33,974
Balance Sheet (N '000)	2017A	2018A	2019E	2020F	2021F
Fixed Assets	195,230	203,493	183,291	180,245	176,096
Stocks	42,729	32,507	35,155	35,089	35,216
Trade debtors	20,384	35,153	19,628	16,805	17,162
Cash & other bank balances	15,867	14,793	3,604	12,003	18,860
Total Assets	382,228	388,263	343,614	346,077	349,272
Trade Creditors	127,947	114,152	87,886	87,722	88,040
Non-current Liabilities	47,877	81,739	84,394	86,945	89,740
Total liabilities	203,930	221,434	196,335	198,798	201,993
Shareholders' fund	178,298	166,828	178,310	178,310	178,310
Key Ratios	2017A	2018A	2019E	2020F	2021F
Gross Margin	42%	39%	40%	42%	43%
EBIT Margin	17%	11%	12%	15%	17%
PBT Margin	14%	9%	9%	12%	15%
Net Margin	10%	6%	6%	8%	10%
EPS	4.13	2.43	2.58	3.50	4.25
P/E	32.64	33.94	30.95	22.87	18.83
EV/EBITDA	11.93	10.35	10.13	8.61	7.58
ROA	9%	5%	6%	8%	10%
ROE	19%	12%	11%	16%	19%

## 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
<b>RESTRICTED</b>	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's engagement in an investment banking transaction and in certain other circumstances.

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