

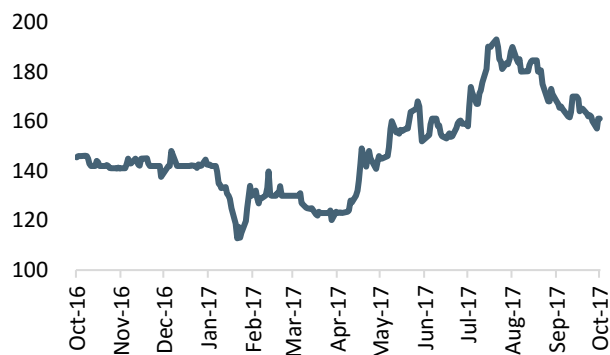
## Nigerian Breweries Plc. (NB.NL)

### Initial View

Quarterly EPS	Q1	Q2	Q3	Q4
<b>2015 A</b>	1.27	1.43	0.59	1.56
<b>2016 A</b>	1.32	1.09	0.13	1.05
<b>2017 A</b>	1.44	1.55	0.03	-

Stock Data	
<b>Price</b>	₦161.00
<b>52-week range</b>	₦112.00 – ₦193.00
<b>Market Cap. (N't)</b>	1.218
<b>1-month Avg. Vol</b>	1,159,941
<b>Curr. PE</b>	53.2x

### Nigerian Breweries Plc- Share Price Trend



### Analyst(s)

**Amaka Ukoha**  
[amaka.ukoha@arm.com.ng](mailto:amaka.ukoha@arm.com.ng)

- Cost pressures drive earnings to record low.** Nigerian Breweries Plc (NB) released its unaudited 9M 17 financial statements wherein revenue rose 14.4% YoY to ₦222.7 billion while EPS surged 19.4% YoY to ₦3.03. However, Q3 17 result reveals significant deterioration in earnings with PBT and PAT plunging 84% and 75% YoY to ₦369 million and ₦260 million respectively—its lowest on record. Nonetheless, NB declared an interim dividend of ₦1 per share which implies a dividend yield of 0.6% using last trading price of ₦161.
- Looking through the result, we note that input cost pressures remained in the quarter with growth in COGS (+15% YoY) outpacing that of revenue (+13% YoY). According to a trading update provided by the parent (Heineken NV), Nigerian volumes declined by mid-single digit in the quarter even as underlying business conditions remained difficult and consumers continued to trade down. In a reaction to pressured volumes across NB's product portfolio, management left prices flat over the quarter (vs Q2 17: +4% QoQ), though higher YoY. On input cost, NB's substantial local raw material sourcing exposed it to pressures from elevated domestic cereal prices (YoY: sugar: +46%, sorghum: +14%, Maize: +2%). Furthermore, the parent noted that sourcing FX remained challenging despite an improvement in liquidity levels relative to last year. Consequently, gross profit declined 24% YoY to ₦23.4 billion—the lowest on record while related margin slid 1.44pps YoY to 34.4%.

- NB also faced pressures from higher operating cost (+16% YoY to ₦2.6 billion) which we link to management's move to ramp up volume sold amid intense industry competition with selling & distribution, and admin expenses rising double-digit YoY. This ultimately led to a decline in operating profit to ₦2.8 billion (-83.2% YoY). Furthermore, finance expenses also surged in the quarter (+43.6% YoY) to account for 89% of NB's operating profit in the quarter. We link the elevated finance expense to higher effective rates on outstanding debt (+400bps YoY to 9%). Overall, these pressures drove the steep decline in NB's weakest quarterly earnings on record.
- Currently, NB trades at a P/E of 53.2x compared to Bloomberg Middle and East Africa Peers at 30.9x. Our model is under review.
- More analysis to follow

Income statement – (₦'million)	Q3 17	YoY growth	QoQ Growth	Deviation		
				From forecast	9M 17	YoY growth
Revenue	73,680	12.8%	-17.9%	0.2%	181,010	15.0%
Cost of sales	48,324	15.3%	-1.3%	21.7%	99,676	19.5%
Gross profit	25,356	8.3%	-37.8%	-65.5%	81,334	9.9%
Operating expenses	22,589	15.7%	1.4%	27.4%	43,835	8.7%
Operating profit	2,979	-25.8%	-85.2%	-81.7%	39,317	15.8%
Net interest expense	2,610	47.4%	-25.3%	-8%	-5,259	-37.3%
PBT	369	-83.6%	-97.8%	-97%	34,059	33.3%
PAT	260	-75.1%	-97.9%	-97%	23,751	24.6%

Key Ratios	Q3 17	Q3 16	Change (pps)	9M 17	9M 16	Change(pps)
Gross margin	34.4%	35.8%	-1.4%	41.9%	43.7%	-1.8%
EBIT margin	4.0%	6.1%	-2.1%	16.6%	17.0%	-0.4%
PBT margin	0.5%	3.4%	-2.9%	13.5%	12.5%	1.0%
PAT margin	0.4%	1.6%	-1.2%	9.4%	9.0%	0.4%
Effective tax rate	29.6%	53.5%	-23.9%	30.3%	27.6%	2.6%

Source: ARM Research \*unless otherwise stated