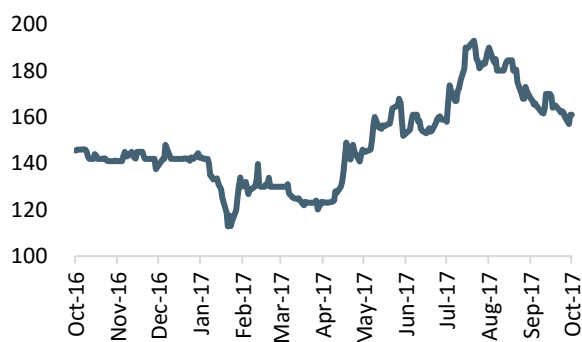


Rating	SELL
Price	₦152.00
FVE	₦130.75
52-week range	₦112.00 – ₦193.00
Market Cap. (N'tn)	1.21
1-month Avg. Vol	1,420,499
Curr. PE	37x

Quarterly EPS	Q1	Q2	Q3	Q4
2015 A	1.27	1.43	0.59	1.56
2016 A	1.32	1.09	0.13	1.05
2017A(E*)	1.44	1.55	0.03	1.33*

NB:NL - Share Price Trend



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Nigerian Breweries Plc. (NB.NL)

Stock Report

Little cause for cheer

- Nigerian Breweries Plc (NB) released its unaudited 9M 17 financial statements, wherein revenue rose 14.4% YoY to ₦222.7 billion and EPS surged 19.4% YoY to ₦3.03. However, Q3 17 result revealed significant deterioration in earnings with PBT and PAT plunging 84% and 75% YoY to ₦369 million and ₦260 million respectively—their lowest levels on record. Nevertheless, in line with its tradition, NB declared an interim dividend of ₦1 per share which implies a dividend yield of 0.7% using last trading price of ₦152.
- For FY 17, we still hold the view that margins will be subdued as depressed real income levels, intense industry competition, weaker volumes as well as NB's relatively more expensive product portfolio mix guides to continued expansion in the share of value beers in the volume mix. That said, higher prices and lower FX losses, relative to 2016, should drive stronger earnings performance in the current year. Nevertheless, NB remains expensive relative to trend levels and peers. We therefore retain our **SELL** rating on the stock.
- **Input cost pressures remain rife in the quarter:** Looking through the result, we note that input cost pressures subsisted in the quarter with growth in COGS (+15% YoY) outpacing that of revenue (+13% YoY). In the review quarter, NB's substantial local raw material sourcing exposed it to pressures from elevated domestic farm produce 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.

- On revenue, NB's parent (Heineken NV) guided to mid-single digit contraction in Nigerian volumes as underlying business conditions remained challenging and consumers continued to down trade. In a reaction to pressured volumes across product portfolio, the company's management left prices flat over the quarter (vs Q2 17: +4% QoQ), though they were higher YoY. Consequently, gross profit declined 24% YoY to ₦23.4 billion—the lowest on record while related margin slid 1.44pps YoY to 34.4%.
- ***Elevated operating and finance expenses exert pressures on margins:*** NB also faced pressures from higher operating cost (+16% YoY to ₦2.6 billion)¹, whose growth also outpaced that of sales. Management linked operating pressures to efforts at stimulating volumes in an industry with intense competition. The foregoing and elevated input cost underpinned a steep decline in operating profit to a record low of ₦2.8 billion (-83.2% YoY). Further contributing to NB's weak performance was a 47% YoY surge in net finance expense to ₦2.6 billion which reflected higher effective rates on outstanding debt (+400bps YoY to 9%). Overall, these pressures redounded in NB's weakest quarterly earnings on record.
- ***Price to support to 2017 earnings:*** We retain our projection for FY 17 revenue at ₦348.3 billion (+11% YoY), premised on the narrow disparity between our estimates and actual numbers. However, against the backdrop of elevated input cost which prevailed over 9M 17, we have revised our expectations for COGS higher to ₦201.99 billion (previously ₦188.1). The foregoing translates to gross profit of ₦146.27 billion (+7.9% YoY) with related margin now at 42% (gross margin 9M 17: 41.9%, prior estimate; 56%). Similarly, reflecting elevated admin and S&D expenses over the nine-month period, we have revised NB's OPEX higher to ₦88.8 billion (+6.7% YoY) with projected EBIT of ₦59.7 billion (+12.9% YoY).
- On the other side, we forecast finance expense lower to ₦10 billion (-23.1% YoY, 9M 17: -24% YoY to ₦8 billion) reflecting moderate FX losses relative to the prior year (-/+56% YoY). Likewise, we have revised NB's finance income lower to ₦172.6 million (-59% YoY) to match the nine-month run rate of ₦124.7 million (-61.7% YoY). Net impact of our model revisions translates to PBT and PAT of ₦49.4 billion (+25% YoY) and ₦34.6 billion (+22% YoY) respectively – EPS of ₦4.36. (previously ₦5.99)
- ***Tight operating environment to subsist in FY 18:*** Going into FY 18, depressed real income levels, intense industry competition, weaker volumes as well as NB's relatively more

¹ Selling & distribution (+15.4% YoY to ₦16 billion), and admin expenses (+16.5% YoY to ₦6.6 billion).

expensive product portfolio guide to a more subdued outlook for revenue growth (+8% YoY to ₦376.1 billion). In our view, although we expect input cost pressures from raw materials to moderate over 2018E, the higher share of value beers in the sales mix implies that gross margin will remain at below trend levels in the near term. Therefore, we have revised our expectation for 2018 gross margin lower to 45% (prior estimate over 2017-2021: 50% in line with trend performance ex 2016, new average over forecast horizon 2017-2021: 45%) with gross profit at ₦169.3 billion (+16% YoY). Furthermore, we review our FY 18E OPEX higher to ₦89.2 billion (+4.7% YoY) reflecting elevated SD&A spend in the face of intense industry competition. Elsewhere, finance expense is projected lower at ₦6.4 billion (-38.6% YoY) in line with our expectation for lower FX losses. Overall, these revisions translate to FY 18E PAT of ₦52.9 billion (vs. ₦34.5 billion in FY 17E)

- NB trades at a current P/E of 37x vs 30.9x for Bloomberg Middle East and Africa. We have a **SELL** rating on the stock with a FVE of **₦130.75**.

Summary of Results and Forecasts - Naira (₦)

ANNUAL					
Income Statement (₦'m) *					
	2014A	2015A	2016A	2017E	2018E
Revenue	266,372	293,906	313,743	348,255	376,115
COGS	130,788	151,444	178,219	201,988	206,863
Gross Profit	135,584	142,462	135,525	146,267	169,252
Operating Cost	70,441	80,717	83,237	88,805	81,617
Operating Profit	66,861	62,229	52,903	59,726	89,515
Net Finance expense	5,399	7,714	13,229	10,316	5,396
PBT	61,462	54,515	39,675	49,410	84,119
Tax	18,942	16,459	11,258	14,823	26,077
PAT	42,520	38,056	28,417	34,587	58,042
Balance Sheet (₦ '000) *					
Fixed Assets	193,800	197,299	191,182	189,099	191,641
Stocks	28,478	28,410	31,245	39,388	40,338
Trade debtors	16,357	16,512	19,974	20,547	22,191
Cash & other bank balances	5,700	5,107	12,156	8,782	9,981
Total Assets	349,229	356,219	367,146	371,720	378,095
Liabilities					
Trade Creditors	83,283	85,246	111,184	113,113	115,844
Non-current Liabilities	63,239	43,818	56,978	58,306	60,162
Total liabilities	177,265	183,897	201,233	204,077	208,711
Shareholders' fund	171,964	172,322	165,914	167,643	169,384
Key Ratios					
	2014A	2015A	2016A	2017E	2018E
Gross Margin	51%	48%	43%	42%	45%
EBIT Margin	25%	21%	17%	17%	24%
PBT Margin	23%	19%	13%	14%	22%
Net Margin	16%	13%	9%	10%	15%
EPS	5.4	4.8	3.6	4.36	7.3
P/E	28.3	31.7	42.4	34.8	20.8
P/B	7.0	7.0	7.3	7.2	7.1
EV/EBITDA	13.5	13.7	14.9	13.8	10.2
ROA	12%	11%	8%	9%	15%
ROE	25%	22%	17%	21%	35%

Source: ARM Research *unless otherwise stated

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