

Nigerian Breweries Plc. (NB.NL)

Stock report

Rating	NEUTRAL
Price	₦30.00
FVE	₦36.69
52-week range	₦22.00 – ₦66.10
Market Cap (₦bn)	239.91
1-month Avg. Vol	3,586,197
Current. PE	17.66

NB:NL - Share Price Trend



Analyst

Temitayo Peters
temitayo.peters@arm.com.ng

Double whammy for volumes, downgrade to NEUTRAL

Nigerian Breweries' (NB) parent company, Heineken, confirmed in its Q1 results that whilst beer volumes in Nigeria remained flat over the quarter, there was a 'high-single digit' decline in March. This decline resulted from NB's decision to increase prices in February following the VAT hike. These higher prices will be the first blow to NB's volumes over the year. The second, and more serious, blow will come from the lockdown implemented in late March and social-distancing measures put in place to combat the coronavirus. Volumes will be seriously hit by the ban on large gatherings, closed clubs and bars which are part of these combat measures. We fully expect a double-digit decline in Q2's volumes on the back of both factors, before a QoQ improvement in Q3 (but still a YoY decline). We forecast the sharpest YoY drop in revenue as a result. Reflecting this fall in revenue we have cut our FVE by over half (51.6%) to ₦36.69.

- Sinking revenue to drag down Gross Profit:** Over Q120, net revenue fell by an almost negligible 0.1% but looking ahead to FY20 we see revenue declining by 5.5% YoY to ₦305.24 billion, the lowest since 2014, on the back of the aforementioned factors. Q2 20 will experience the sharpest drop in revenue because of the lockdown that lasted all of April and the social-distancing measures that were put in place even after that ended. That coupled with the slowdown from higher prices means we can expect to see a double-digit decline for that quarter. Over FY we see costs rising by 1.9%, marking an end to two consecutive years of falling COGS, to ₦195.35 billion. Although this seems like a small rise, it would represent a cost to sales of 64%, which is comfortably their highest in the last decade. Although majority (~53%) of their raw materials is locally sourced, they still import a good amount of that (as well as spare parts and machinery) which means they are still exposed to the depreciating naira which, despite the mild decline in sorghum prices (-1.7% YTD), would lead to higher COGS. The combined effect of this is a 16.3%YoY crash in gross profit to ₦109.89 billion which translates to a gross profit margin of 36%.

-
- Considering the struggles we see the business facing over the year we see a slight decline in OPEX by 0.6% to ₱96.46 billion . After considering other income, EBIT for FY20, will print at ₱14.35 billion, giving us an EBIT margin of 4.7%. This marks a 59.2%YoY drop in EBIT and a drop in the EBIT margin from 11% in 2019.
 - On the finance cost leg, NB's commercial papers so far this year have been borrowed at a lower weighted average interest rate of 7.45% (vs 13.89% in 2019). Lower interests will also be applied to their rolling loan facilities from the banks and from any other loans they take up during the course of the year. Based on those assumptions, we foresee less pressure on its finance costs . Combining all our assumptions, we believe the company will report PAT of ₱3.02 billion, an 81.3% decline from 2019.
 - On our numbers, we downgrade NB to a **NEUTRAL** and cut our FVE by 51.6% to **₱36.69** based on our expectation for lower sales.
-

Summary of Results and Forecasts

QUARTERLY					
Income Statement (₹'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 (₹ '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
Liabilities					
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

Source: ARM Research, NSE

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

