



Nigerian Breweries Plc. (NB.NL)

Stock report

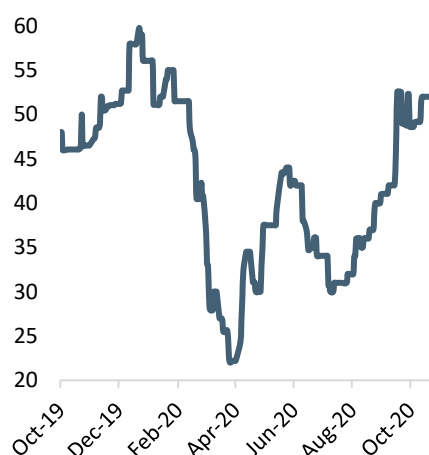
Back on the right path

After two consecutive quarters of YoY decline in revenue Nigerian Breweries (NB) seem to have turned a corner in Q320 recording a 25.6%YoY growth in revenue which marks their fastest growth since 2013. The rise in revenue drove gross profit up by 26%YoY to ₦30.81 billion (Q319: ₦24.52 billion) while PBT printed at ₦2.6 billion, an impressive turnaround from a year ago when a loss before tax of ₦2.2 billion was recorded. Despite the impressive Q3 growth, for the 9M period ending in September NB recorded a 0.7% YoY decline in revenue to ₦234 billion while costs were up 33% YoY. As a result, gross profit fell 6.5% YoY to ₦90 billion while PBT was down 36% YoY to ₦11 billion. Additionally, NB announced an interim dividend of ₦0.25 per ordinary share, which translates to a dividend yield of 0.5%.

- Volume growth across the whole portfolio:** NB's revenue growth in Q320 was led by an impressive growth in volumes of the products in their portfolio. According to parent company, Heineken, beer volumes grew in the high teens (ahead of the market), the premium portfolio (includes Heineken and Tiger) grew by more than 50% while the non-alcoholic drinks portfolio (including Maltina) grew in the mid-twenties. Cost of sales was also up by 26% in Q320, printing at ₦51.42 billion, and this was driven by a 43%YoY increase in the cost of raw materials despite average barley prices falling 25% YoY in Q320. Rather the higher cost could be tied to the devaluation in the naira. Gross profit increased by 26%YoY to ₦30.81 billion (Q319: ₦24.52 billion), albeit gross margin was relatively at 37.5% (Q319: 37.4%), given both sales and cost rose at same rate.
- OPEX declined by 2.3%YoY to ₦23.6 billion following an 8%YoY drop in sales & distribution costs which in turn arose from a 31% drop in advertising costs YoY. Admin costs, on the other hand, rose 20%YoY but they only account for a small percentage (18%) of overall OPEX hence why OPEX still fell despite this rise in admin costs. Operating profit rose over 90%YoY to ₦7.4 billion from just over ₦700m in Q319 and this translated to an EBIT margin of 9.1% (Q319: 1.1%). Net finance costs rose 66%YoY to ₦4.81 billion mirroring a 68%YoY rise in finance costs as long term borrowing rose 55% to ₦41.3 billion. Overall, PBT was up 220%YoY to ₦2.6 billion in Q320 (Q319: - ₦2.3 billion)

Rating	NEUTRAL
Price	₦52.00
FVE	₦53.20
52-week range	₦22.00 – ₦59.75
Market Cap (₦bn)	415.84
1-month Avg. Vol	994,055
Current. PE	38.57

NB:NL - Share Price Trend



Analyst

Temitayo Peters

temitayo.peters@arm.com.ng

Olamide Adeboboye

olamide.adeboboye@arm.com.ng

- **A few things stand out in NB's balance sheet.** Firstly, there was a 50% rise in their Right of Use Assets (ROUA) to ~~₺~~43.16 billion and secondly, there was a 27% decrease in receivables to ~~₺~~24.06 billion. To recall, in Q220 receivables shot to their highest level in a year so this decline in Q320 is just a return to the average. The last thing to point out from the balance sheet is the 14% rise in payables to ~~₺~~111 billion, the highest it has printed at since Q418.
- Looking forward, the performance over 9M20 led to us amending our FY20 revenue estimate upwards by 6% to ~~₺~~323 billion (from ~~₺~~305 billion) which translates to a FY revenue growth of 0.3%YoY compared to FY19. Our revision to FY20's revenue not only reflects the performance over 9M20 but also cautious optimism for Q420. Additionally, we have made technical adjustments to our valuation model particularly in the area of ratios of comparable firms. As a result of these, our FVE is now 45% higher at ~~₺~~**53.2**, which based on the last close of ~~₺~~52 represents a **NEUTRAL** recommendation.

Summary of Results and Forecasts

ANNUAL					
Income Statement (₹'000) *	2018	2019	2020E	2021E	2022E
Revenue	324,388,500	323,007,470	323,976,492	346,265,091	361,847,020
COGS	197,484,694	191,756,513	200,865,425	218,147,007	220,726,682
Gross Profit	126,903,806	131,250,957	123,111,067	128,118,084	141,120,338
Operating Cost	90,837,622	97,050,643	93,305,230	94,530,370	98,060,542
Operating Profit	36,951,548	35,205,600	30,777,767	34,626,509	44,145,336
Interest Income	361,923	260,700	264,429	185,302	383,216
Interest Expense	7,891,519	12,114,546	10,176,649	11,772,657	12,026,554
PBT	29,421,952	23,351,754	20,865,547	23,039,154	32,501,998
Tax	9,984,008	7,245,842	6,676,975	7,372,529	10,400,639
PAT	19,437,944	16,105,912	14,188,572	15,666,625	22,101,359
Balance Sheet (₹ '000) *	2018	2019	2020E	2021E	2022E
Fixed Assets	203,492,850	201,907,332	175,081,791	170,764,138	165,927,088
Inventories	32,506,824	38,520,328	44,190,394	44,720,136	41,938,070
Receivables	35,153,451	21,307,218	37,257,297	32,895,184	25,329,291
Liabilities					
Payables	114,151,861	102,782,561	114,493,292	118,890,119	114,777,875
Non-current Liabilities	72,023,707	75,498,612	157,970,150	163,544,811	158,195,840
Total liabilities	221,434,417	215,027,543	232,520,629	238,561,294	235,124,373
Shareholders' fund	166,828,452	167,749,979	194,171,665	194,171,665	194,171,665
Key Ratios	2018	2019	2020E	2021E	2022E
Gross Margin	39.1%	40.6%	38.0%	37.0%	39.0%
EBIT Margin	11%	11%	9.5%	10%	12%
PBT Margin	9%	7%	6%	7%	9%
PAT Margin	6%	5%	4%	5%	6%
EPS	2.43	2.01	1.77	1.96	2.76

Source: ARM Research, NSE

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