

Rating	BUY
FVE	₦75.82
Price	₦50
52-week range	₦50– ₦105
Market Cap. (₦bn)	399.8
1-month Avg. Vol	1,369,386
Current PE	27.6x

NB: NL - Share Price Trend



Analyst(s)

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Nigerian Breweries Plc (NB.NL)

Stock Report

Some cause for cheer, but pressures persist

- Nigerian Breweries (NB) H1 19 performance showed a turnaround in volumes compared to volumes erosion for most part of 2018. According to NB's parent company in a media release, Heineken volumes grew double digit while Malt and Beer volumes grew high and mid-single digit respectively. The growth in beer volumes particularly in the premium space – Star and Gulder – is in sync with our views in our earlier communicated report (**Bleak outlook as fresh pressure points kick in**) wherein we reiterated our optimism for volumes growth in the Premium segment.
- Streamlining to Q2 specifically, due to higher base from last year's price hike before reversal due to IB's reluctance to increase prices and pass through of higher excise duty charge, the company reported a 3.1% YoY decline in net revenue. Further down, with underlying competition necessitating increased promotional activities and distribution expense, and higher financing cost, EPS declined 35.6% YoY to ₦1.63. Factoring the Q2 19 numbers, cumulative EPS over the first half of the year slipped 29.3% YoY to ₦1.63.
- Going forward, following the persisting hurt to International Breweries (IB) earnings from cost inefficiencies and higher interest expense that has kept the company in a loss-making position, we think an end to the ongoing price war in the breweries sector is in the offing as IB would need to either raise prices or new capital in the near future. This bodes well for NB and paves way for better topline performance going forward. That said, while we remain cautiously optimistic on the company's earnings over the rest of the year, we leave our FVE unchanged at ₦75.82, as the company looks set to deliver our 2019E EPS of ₦2.58. Based on recent plunge in the share price of NB (-41.5% YTD), our FVE on the company translates to a BUY rating from a SELL in our last communicated report. On our numbers, NB trades at a forward P/E of 21.3x relative to 12.1x for Guinness.

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- ***Higher operating expenses swamp EBIT in Q2:*** Interestingly, despite higher barley prices (+26% YoY) and volumes produced during the period, cost of goods sold dipped 2.5 % YoY to ~~€~~50.3 billion. In our view this reflects benefits from better economies of scale from higher volumes, particularly the high margin premium beer – Star and Gulder – which grew over the period. However due to faster decline in revenue relative to cost, gross profit dipped 3.9% YoY to ~~€~~36.6 billion with related margin contracting 30bps YoY to 42.1%. Furthermore, with persisting pressure on selling and distribution expenses (12.5% YoY), operating expenses increased 8.8% YoY. For us, the higher selling and distribution expenses reflects management’s resolve to drive volumes growth. While this appears to be paying off on sales, the firm is taking a hit on its operating earnings with EBIT margin compressing 360bps to 12% over the period.
 - Over the period finance expense rose 44% YoY to ~~€~~2.6 billion. In addition to draw down on its revolving facility earlier in the year, the higher interest expense reflects ~~€~~17 billion raised in commercial papers which brings its total debt split between long and short term to 70:30 in Q2 19 (vs 99:1 in the prior period). Overall, profit after declined 35.6% YoY to ~~€~~5.3 billion.
 - Over the rest of the year, two factors are central to our expectation for NB; 1) sustained recovery in beer volumes 2) lower cost of sales from better economies of scale. Following the current run rate of actual H1 19 EPS (63%) vis-à-vis our FY 19E EPS (~~€~~2.58), we leave our estimates unchanged. Our FVE of **€75.82** given translates to a **BUY** rating on the last closing price of the stock. On our numbers, NB trades at a forward P/E of 19.38x relative to 12.1x for Guinness.
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Summary of Results and Forecast

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%

*N/M means not meaningful

Source: ARM Research

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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	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
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	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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