



Price	N48.0
52-week range	N47.30 – N48.0
TP	
Rating	N/A
Market Cap. (N'bn)	387.64

NB.NL - Share Price Trend



Analyst

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Nigerian Breweries Plc (NB.NL): A Steady rise from the Abyss

Earnings Flash: FY 2021

Brewing Revenue Growth Portends Better Days

In the recently released financial scorecard of Nigerian Breweries Plc (NB), we saw intensified improvement in Revenue, as it grew 29.7% YoY to N437.29bn from N337.05bn in the corresponding period of the previous year. While the juries are back on the improvement in top-line, we await managements' guidance on the product segments that occasioned the growth.

Exchange Rate Fluctuation Underlies Rising Input Cost

In the same period, Cost of Sales (adjusted for depreciation) recorded similar growth (up 29.4% YoY) like we had in the top-line, as it ended at a total sum of N264.48bn. The trajectory of Cost of Sales derives majorly from a momentous surge in the cost of Imported raw materials, which rose 83.9% YoY to N71.84bn from N39.05bn in FY 2020. We are of the opinion that this surge in cost input asides being ascribable to the growth in volume of output at one end, it also has the element of the foreign exchange conditions that stretched cost limits for manufacturers in 2021. *This development explains how a much stable foreign exchange condition could help the business reduce cost burden seeing as NB continues to source majority of its input locally.*

Brand Promotion Underscores Surge in OPEX

Going by the series of promotional activities that headlined 2021 for the business, the direction of its Operating Expenses stayed true to our expectation, as it rose 49.9% YoY from N63.12bn in FY 2020 to N94.64bn in FY 2021. Both line items that constitute its OPEX recorded increases in the period. Marketing and Distribution Expenses (adjusted for depreciation) recorded the softest growth (Up 45.8% YoY), Administrative Expenses reported 79.2% YoY to close the year at N13.85bn. The implication of the OPEX surge is reflected in the Earnings Before Interest, Depreciation, and Amortization (EBITDA), as it posted a marginal 16.6% in growth to end FY 2021 at N78.17bn. *Considering the firms current business model, we would expect NB to sustain its improving EBITDA momentum, especially on the back of improved revenue flow*

Reduced Indebtedness Usher in Marginal Improvement in Finance Cost

Net Finance Cost for the period reported a marginal drop (Down 1.3% YoY to N17.79bn), an offshoot of the dual improvement posted on both Finance Cost (Down 0.9% YoY to N18.11bn) and Finance Income (Up 27.3% YoY to

N0.31bn). In the same vein, Other Income also recorded an uptick in the period, growing 458.7% to close 2021 at N4.63bn. This spate of improved performances combined with the decent uptick in EBITDA, paved the way for a 104.7% YoY surge in Profit Before Tax (PBT) to N23.70bn in the period.

Overview of Financials FY 2021

Item Lines (Million of Naira)	FY 2021	FY 2020	% Change
Sales	437,285.19	337,046.21	29.7%
Cost of Sales (ex-dep)	(264,482.10)	(206,874.51)	27.8%
Gross Profit	172,803.09	130,171.71	32.8%
Mark and Dist Expenses (ex-dep)	(80,784.33)	(55,393.75)	45.8%
Administrative Expenses (ex-dep)	(13,851.40)	(7,731.54)	79.2%
EBITDA	78,167.36	67,046.42	16.6%
Depreciation and Amortization	(41,299.66)	(38,269.48)	7.9%
EBIT	36,867.70	28,776.95	28.1%
Other Incomes	4,626.57	828.06	458.7%
Finance Cost (Net)	(17,793.13)	(18,028.46)	-1.3%
Profit Before Tax	23,701.14	11,576.55	104.7%
Tax Expense	(11,029.18)	(4,208.18)	162.1%
Profit After Tax	12,671.96	7,368.37	72.0%
Balance Sheet Extract (Million of Naira)	FY 2021	FY 2020	% Change
Total Asset	485,522.23	445,857.20	8.9%
Shareholders Fund	171,912.26	161,179.04	6.7%
Longterm Liability	41,077.37	74,210.57	-44.6%
Shorterm Liability	272,532.59	210,467.59	29.5%
Ratios	FY 2021	FY 2020	% Change
Gross Margin	39.5%	38.6%	2.3%
EBITDA Margin	17.9%	19.9%	-10.1%
Operating Margin	8.4%	8.5%	-1.3%
Net Margin	2.9%	2.2%	32.6%
Return on Asset	2.6%	1.6%	65.0%
Return on Equity	7.4%	4.4%	66.6%

Source: ARM Research *unless otherwise stated

Overall improvement ushers in momentous rise in Profit

Overall, we saw an improved bottom-line following improvement across accounting lines resulting in a 72.0% uptick in Profit After Tax. Nonetheless, concerns around optimising cost and revenue are still prominent. In our view, any strategic direction should be headlined by the need to improve on both for the business to completely assume a new lease of life.

We are reviewing our target price for the ticker.

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%	N/A	
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

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