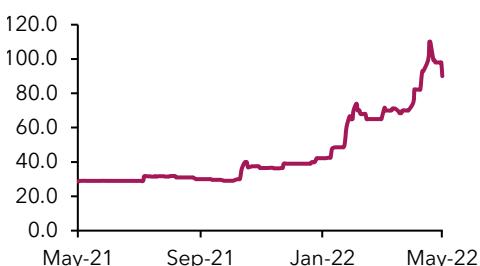




Price	₦91.0
52-week range	₦28.55 - ₦110.0
TP	N/A
Rating	N/A
Market Cap. (₦'bn)	201.52

GUINNESS.NL - Share Price Trend



Analyst: Ayodeji Ajilore
ayodeji.ajilore@arm.com.ng

(GUINNESS.NL): Making "Spirited" Strides

Earnings Note: 9M 2022

Overall Business Improvement Continues

Guinness continued on the path of profitability in the period ending 31st of March 2022. The firm sustained the trajectory of the Spirit Stock Keeping Unit, while also optimizing price for other Stock Keeping Units (SKUs). Similarly, we noted improved Degree of Operating Leverage, amplified by improved contribution from all the Stock Keeping Units (SKUs). Similarly, the asset turnover of the firm inched higher (Up to 0.77x in the period) when compared to 9M 2021 figure of 0.68x. We believe this path bodes significant upside for the firm's revenue, and the more it sustains this trajectory while also reining in cost, the better for overall business performance.

In the light of the obvious improvements in performance, and the recent rally on the stock, we have placed our previous target price of N84 under review.

Revenue: Headlined by Spirit Segment Growth and Price Adjustments

Building on the gains reported in its H1 2022 financials, Guinness Nigeria Plc continued its ascent (Up 38.7% YoY) in 9M 2022 to N159.44bn from N114.95bn in 9M 2021. Previously, we have confirmed the contribution of the Spirit Segment to overall revenue growth. In addition, we observed that although the recent performance retained the contribution of the Spirit Segment, it also benefitted from the overall rise in the price of alcoholic and non-alcoholic beverages in the period. As the firm continues to penetrate the market with its premium brand and raise price as and when due to cushion the effect of cost on other product segments, we envisage sustained topline growth.

Guinness Records Double-Digits Growth in Cost of Sale

Cost of Sales (adjusted for depreciation) continued its surge (24.4% YoY) to N100.33bn from N80.67bn in the corresponding 9M of 2021. Although the constituent of this line is unclear at the time of making this report, we believe that the recent trajectory of commodity prices makes for rise in Cost of Input. In terms of the outlook for FY 2022, we do not expect any significant slow-down in the cost line. We observed that the improvement in top-line, which was predominantly dictated by price adjustment was enough to dictate the direction of Gross Profit which rose 72.4% YoY to N59.11bn from N34.27bn in 9M 2021.

Broad Based Rise Underscores Increase in Operating Expense

Guinness recorded a significant surge (Up 45.3% YoY) in adjusted Operating Expenses (OPEX) for the 9M ending 31st of March 2020 to N31.14bn. We noted an overarching rise across lines – Distribution and Marketing expenses for instance moved from N9.12bn and N9.33bn to N12.39bn and N15.69bn, respectively. While we still expect Management's guidance, our observation suggests many factors among which we have rising diesel costs, advertisement expenses, and improved selling activities are believed to have amplified the growth on the expense line. Nonetheless, Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA), supported by the significant improvement in the contribution margin, rose to 117.6% YoY to N27.97bn in the period. We hold that at current levels, the firm is well on course for sustained profitability

Improved Degree of Operating Leverage and Finance Cost Supports Overall Profitability

We observed that Guinness followed the trend observed across the breweries segment by improving (Down 56.9% YoY) its Finance Cost to N1.49bn from N3.46bn in the corresponding period in 2021. Similarly, we recorded a marked rise (Up 282.0% YoY) in Finance Income to N1.07bn. On a balance of the two Finance Items, Net Finance Cost dipped 86.9% YoY to N0.42bn – Further supporting the improved operational efficiency. Adding the effect of these developments to the improved Degree of Operating Leverage - A metric that helps explain how change in revenue affects overall operational profitability (Estimated: 20.66°). We have a 403.4% YoY rise in Profit Before Tax to N22.46bn, and a Net Income growth of 731.2% to N15.28bn.

Overview of Financials 9M 2022

Item Lines (Million of Naira)	Q1 2022	Q1 2021	% Change
Sales	137,771.64	105,675.76	30.4%
Cost of Sales (ex-dep)	(72,539.61)	(63,049.73)	15.1%
Gross Profit	65,232.03	42,626.04	53.0%
Mark and Dist Expenses (ex-dep)	(28,430.92)	(15,863.87)	79.2%
Administrative Expenses (ex-dep)	(4,672.22)	(2,789.80)	67.5%
EBITDA	32,128.89	23,972.36	34.0%
Depreciation and Amortization	(9,264.44)	(9,850.11)	-5.9%
EBIT	22,864.45	14,122.25	61.9%
Other Incomes	859.35	368.03	133.5%
Finance Cost (Net)	(2,961.11)	(2,976.03)	-0.5%
Profit Before Tax	20,762.69	11,514.25	80.3%
Tax Expense	(7,149.09)	(3,854.72)	85.5%
Profit After Tax	13,613.59	7,659.53	77.7%
Balance Sheet Extract (Million of Naira)	Q1 2022	Q1 2021	% Change
Total Asset	521,370.11	485,522.23	7.4%
Shareholders Fund	185,976.55	171,912.26	8.2%
Longterm Liability	37,276.52	41,077.37	-9.3%
Shorterm Liability	298,117.04	272,532.59	9.4%
Ratios	Q1 2022	Q1 2021	% Change
Gross Margin	47.3%	40.3%	17.4%
EBITDA Margin	23.3%	22.7%	2.8%
Operating Margin	16.6%	13.4%	24.2%
Net Margin	9.9%	7.2%	36.3%
Return on Asset	2.6%	1.5%	71.6%
Return on Equity	7.3%	4.3%	71.0%

Source: ARM Research *unless otherwise stated

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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