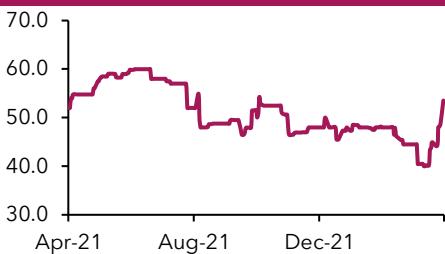




Price	₦53.5
52-week range	₦39.82 - ₦53.5
TP	₦63.43
Rating	Overweight
Market Cap. (₦'bn)	432.46

NB.NL - Share Price Trend

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Nigerian Breweries Plc (NB.NL): Charting New Territory?**Earnings Note: Q1 2022****Brewing Revenue; Is the wait finally over?**

In the recently released financial scorecard of Nigerian Breweries Plc (NB), which stayed true to our expectation, we saw intensified improvement in Revenue, which grew 30.4% to ₦137.77bn in Q1 2022. This performance followed the path of its FY 2021 figure which grew 29.7% YoY to ₦437.29bn. We observed that improved performance and price adjustment on the premium segment made for the overall growth. We expect management's guidance and a detailed breakdown of the figures.

Firm Records Tapered Cost of Sale

Cost of Sales (adjusted for depreciation) continued its surge albeit at a slower pace (15.1% YoY) to ₦72.53bn from ₦63.05bn in the corresponding quarter of 2021. Our findings of the constituents revealed that the Cost of Raw Materials continued its ascension (Up 17.35% YoY), but at a slower pace relative to Revenue. To provide colour, we observed that Raw Materials Consumed for every ₦100 Revenue dropped from ₦44.03 in Q1 2021 to ₦39.63 in the reporting period. We are of the opinion that the direction of cost has not significantly changed. Furthermore, the impact of the improved Revenue and the seemingly tapered cost of sales drove Gross Profit Margin to 47.3%, meaning the firm made ₦47.3 for every ₦100 generated in revenue for the period, as opposed to ₦40.3 in Q1 2021.

Brand Promotion Underscores Surging OPEX

In Q1 2022, we noted the significant surge (77.5% YoY) reported on Operating Expenses (adjusted for depreciation) to ₦33.10bn. Since 2021, we have observed a trend in Management's strategy, which seemingly appears like a purposeful quest to create Top of the Mind Awareness (TOMA) for their products. In Q1 2022, the trajectory continued with the firm recording a 96.31% YoY rise in the advertisement expenses to ₦14.04bn from ₦7.15bn in Q1 2021. This development combined with the momentous jump (154.68%) in Distribution Cost to ₦11.47bn created the path for some slowdown in the contribution recorded from improved Revenue. We believed this constrained growth on Earnings Before Interest, Tax, Depreciation,

and Amortization to 34.0% YoY in the period. By the virtue of the drop (5.9% YoY) in the amount of capital consumption in the period, however, Operating Expenses turned out just fine, rising 61.9% YoY to ₦22.86bn from ₦14.12bn in Q1 2021.

Considering the firms current business model, we would expect NB to sustain its improving EBIT momentum, especially on the back of improved revenue flow.

Foreign Exchange Losses Encumbered Gains of Finance Strategy

We noted that the firm obtained ₦43.30bn in Loans and Borrowing in Q1 2022, as opposed to a more conservative position (₦24.54bn) in Q1 2021. Nonetheless, it was still able to leverage the low interest environment to half its Finance Cost, save for the impact of foreign exchange losses which encumbered the development and slow down the savings recorded in Finance Cost position. In addition, we established a significant uptick in Income Tax Expense from ₦3.85bn to ₦7.15bn in Q1 2022, which despite impacting the overall gain, the firm was still able to record ₦13.61bn in Profit After Tax. Worthy of Note is how the recent profitability trumped FY 2021 Profit After Tax of ₦12.67bn.

Overall improvement ushers in momentous rise in Profit

Overall, we saw an improved Revenue performance based on upward pricing and volume increase setting the path for an exciting bottom-line performance. We had in our previous report stated this as a very important factor for the firm to actualize in its quest to consistently chart a path of steady and elevated profitability. For instance, in Q1 2021, FY 2021, and Q1 2022 the firm reported annualized Asset Turnover Ratio of 0.87x, 0.90x, and 1.05x, respectively. We believe in this as a path for further significant growth for the firm, and the more it continues this trajectory, the better for overall improved performance.

In the light of the obvious improvements in performance, we have done an upward review of our target price from ₦57.92 to ₦63.43. We arrived at the target price using a mix of absolute and relative valuation methodologies.

Overview of Financials Q1 2022

Item Lines (Millions 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%
Long-term Liability	37,276.52	41,077.37	-9.3%
Short-term 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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