

Resilient Consumer Demand and Higher Prices Lift Net Profit by 731% in 9M-2021/22

INVESTMENT SUMMARY

Guinness Nigeria posted a stellar performance in nine-month to March 2021/22 as improved economic environment supported the brewer. The revenue of the company increased significantly by 38.70% in nine-month to March 2021/22 to ₦159.44 billion (vs. ₦114.96 billion in nine-month to March 2020/21). The performance was driven by resilient consumer demand, favourable brand mix and price increases across all the brands. Revenue grew across all the key categories (Malta Guinness and Guinness, Spirits and Ready-to-Drink.) during the period. Meanwhile, cost of sales grew significantly by 23.91% to ₦102.26 billion in 9M'21/22 (vs. ₦82.53 billion in 9M'20/21) due to increasing inflationary pressure, sales volume growth, currency devaluation (which impacted the cost of imported materials), higher air-freight cost and a shift towards more expensive Can products. Also, the administration, marketing and distribution expenses rose by 38.46% to ₦35.64 billion in 9M'21/22 (vs. ₦25.74 billion in 9M'20/21) - driven by elevated marketing expenses, higher volumes, freight and diesel inflation. Despite the higher operating expenses, the total operating income grew significantly by 199.53% to ₦22.88 billion in 9M'21/22 (vs. ₦7.64 billion recorded in 9M'20/21).

The net finance cost of the company declined by 86.88% to ₦0.42 billion in 9M'21/22 (vs. ₦3.46 billion in 9M'20/21), driven by 61.88% fall in finance expense on loans & borrowings; and 67.56% decline in loss on revaluation of forex balances. As a result, profit before tax surged by 403.38% to ₦22.47 billion in 9M'21/22 (vs. ₦4.46 billion in 9M'20/21). A higher provision of ₦7.19 billion was made for tax in 9M'21/22 (9M'20/21: ₦2.63 billion). Despite higher tax provision during the period, profit after tax improved significantly by 731.23% to ₦15.28 billion in 9M'21/22 (vs. ₦1.84 billion in 9M'20/21). This resulted in 12-month trailing earnings per share of ₦6.71 for the period. With the impressive performance of the company in 9M'21/22 and positive outlook, we upgrade our forecast to ₦75.66 (Previous: ₦67.38) but downgrade to a **SELL** recommendation.

Table 1: Quarterly results highlights

	3Q2022	2Q2022	3Q2021	Q/q Δ	Y/y Δ
Revenue (₦mn)	50,320	61,655	42,606	-18.38%	-18.11%
Operating profit (₦mn)	9,293	7,085	3,925	+31.16%	+136.8%
Net profit (₦mn)	6,457	4,777	2,155	+35.17%	+199.6%

Source: NGX, PAC Research

Oluwole Adeyeye

oluwole.adeyeye@panafricancapitalholdings.com

Price:

- Current	₦110.00
- Target	₦75.66

Recommendation: **SELL**

* As at Friday May 6, 2022

Table 2: Stock data

FYE	June
Price Mov't: YtD / 52wk	+182.05%/+305.90%
52-week range	₦28.00 - ₦110.00
30-day Average vol.	936,510
Shares Outstanding ('mn)	2,190.38
Market Cap. (₦bn)	240.94
Trailing 12-Month EPS (₦)	6.71
DPS, ₦- FY2021	0.46

Source: NGX, Company's Annual Reports, PAC Research

Table 3: Key ratios

	9M'22	9M'21
Gross profit margin	35.86%	28.21%
Net profit margin	9.58%	1.60%
Equity multiplier	2.30x	2.10x
Asset turnover	0.77x	0.73x

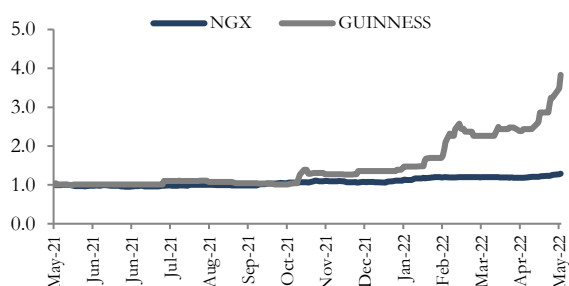
Source: NGX, PAC Research

Table 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E	-19.15x	191.93x	11.35x	10.52x
P/B	3.30x	3.24x	2.60x	2.16x
Sale Per Share	47.65%	73.24%	95.21%	103.78%
EV/EBITDA	-137.43x	11.95x	4.45x	4.12x
P/Sales	2.31x	1.50x	1.16x	1.06x
ROE	-17.22%	1.69%	22.91%	20.49%
ROA	-8.73%	0.74%	10.05%	9.98%
Div. Yield	0.00%	0.42%	2.73%	3.18%

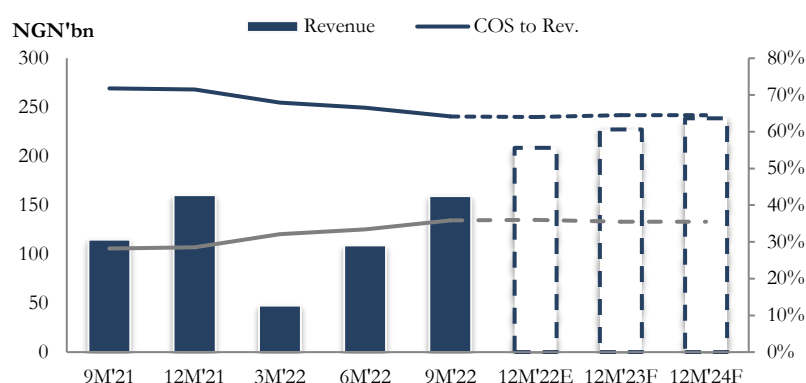
Source: NGX, PAC Research

Fig. 1: Guinness vs NGX, 52-wk Movement (Rebased)



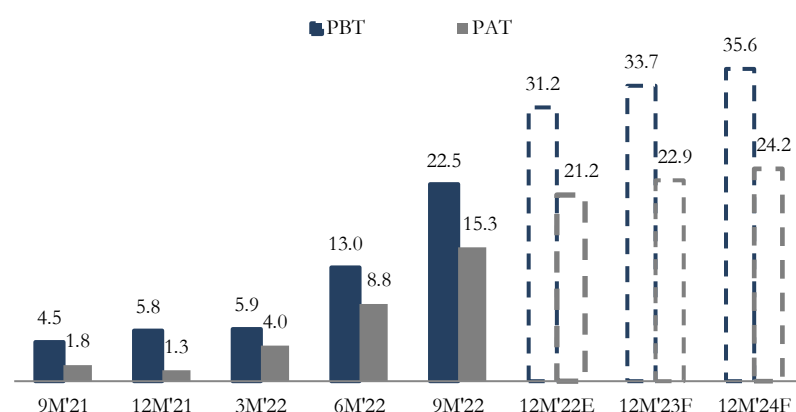
Source: Bloomberg, PAC Research

Fig. 2: Revenue, COS to Rev. and GP Margin – 9M'22 – 12M'24F



Source: NGX, PAC Research

Fig. 3: Profit Before Tax and Profit After Tax – 9M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Guinness Nigeria sustains a solid balance sheet in third quarter of 2021/22:

Expectation of improved dividend payment in FY'21/22: The impressive operating and non-operating performance of Guinness Nigeria reflected in the financial position as the total assets grew by 31.80% to ₦207.33 billion in third quarter of 2021/22 (vs. ₦157.31 billion in third quarter of 2020/21). The progress recorded in the total assets of the company was driven by the improvement in the current assets and non-current assets of the company during the period. The current assets of the company grew significantly by 58.14% to ₦111.08 billion in Q3'21/22 (vs. ₦70.24 billion in Q3'20/21) due to the 37% increase in cash and cash equivalent and 69% rise in inventories and 40% increase in trade & other receivables. In addition, the non-current assets of the company rose by 10.54% to ₦96.24 billion in Q3'21/22 (vs. ₦87.06 billion in Q3'20/21), mainly driven by additional investment in property, plant and equipment during the period.

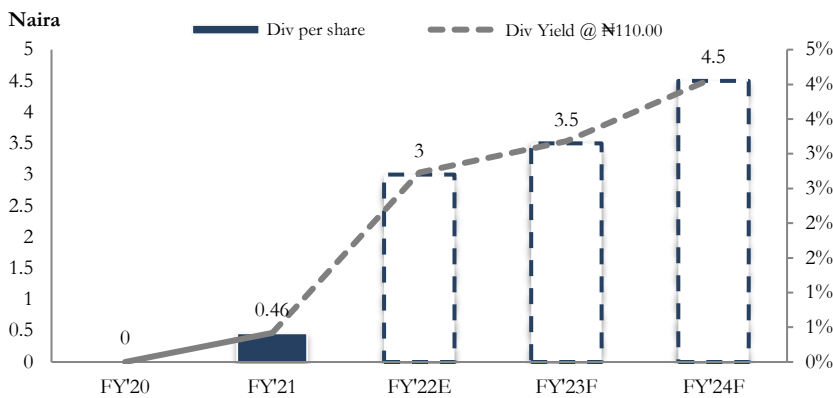
However, the total liabilities of the company rose significantly by 42.25% to ₦117.26 billion in Q3'21/22 (vs. ₦82.43 billion in Q3'20/21) because of significant increase in short-term loans and borrowings, trade & other payables and deferred tax liabilities.

During the period, the short-term loans and borrowing increased by 114.67% to ₦27.14 billion in Q3'21/22 (vs. ₦12.64 billion in Q3'20/21), driven by significant increase in Letters of Credit. Impressively, the progress recorded in the total assets outweighed the increase in the total liabilities of the company. Consequently, the net assets increased by 20.29% to ₦90.07 billion in Q3'21/22 (vs. ₦74.88 billion in Q3'20/21) and this resulted in a net asset per share of ₦41.12 (Q3'20/21: ₦34.18).

With impressive performance across board in nine-month to March 2021/22 and expectation of improved demand in the fourth quarter, we expect dividend from the brewer to increase in the full year of 2021/22 relative to previous year. **(fig. 4)**

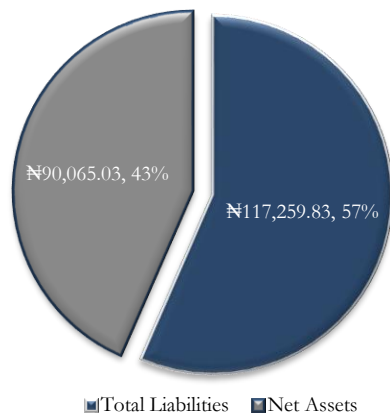
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Fig. 4: Dividend Per Share and Dividend Yield - FY'20 -FY'24F



Source: NGX, PAC Research

Fig. 5: Total Liabilities Vs Net Asset in 9M'21/22



Source: NGX, PAC Research

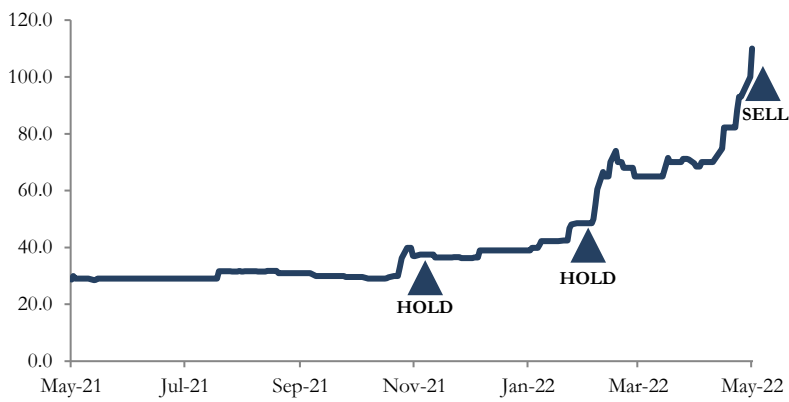
Valuation

Our valuation sets the target price of the stock at ₦75.66, representing a decline of 31.22% from the current price of ₦110.00. In arriving at the target price, we employed free cash flow methodology, dividend discount valuation method and residual income valuation method. Consequently, we downgrade to a **SELL** recommendation on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company, the improved economic activities and positive outlook from the management.

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Fig. 6: Share Price History (Naira)



Source: NGX, PAC Research

Table 5: Statement of Profit or Loss, N'mn

	2020	2021	2022F	2023F
Revenue	104,376	160,416	208,541	227,310
<i>Change</i>		53.69%	30.00%	9.00%
Cost of sales	71,046	114,706	133,466	146,615
<i>Change</i>		61.45%	16.35%	9.85%
Gross profit	33,330	45,710	75,075	80,695
<i>Change</i>		37.14%	64.24%	7.49%
Other income	503	1,030	2,920	3,182
<i>Change</i>		104.75%	183.50%	9.00%
Marketing & Distr. Exp.	18,515	26,066	35,452	38,643
<i>Change</i>		40.78%	36.01%	9.00%
Administrative expenses	14,340	10,498	10,427	11,365
<i>Change</i>		-26.79%	-0.68%	9.00%
Results from op. activities	-12,832	9,871	31,427	33,119
<i>Change</i>		-176.93%	218.36%	5.38%
Net Finance costs	4,241	4,102	209	-568
<i>Change</i>		-3.29%	-94.92%	-372.50%
Profit Before Taxation	-17,074	5,770	31,219	33,687
<i>Change</i>		-133.79%	441.10%	7.91%
Taxation	-4,495	4,514	9,990	10,780
<i>Change</i>		-200.43%	121.30%	7.91%
Profit After Taxation	-12,579	1,255	21,229	22,907
<i>Change</i>		-109.98%	1591.07%	7.91%

Table 6: Statement of Financial Position, N'mn

	2020	2021	2022F	2023F
Property plant and equipment	88,919	94,237	100,100	109,109
Intangible assets and goodwill	309	2	104	114
Right-of-use assets	943	432	626	682
Other receivables	0	0	0	0
Prepayments	2	0	4	5
Inventories	26,426	21,461	32,741	35,233
Trade and other receivables	18,719	14,019	16,683	18,185
Cash and cash equivalents	5,271	35,869	56,306	61,374
Total Assets	144,146	169,407	211,152	229,587
current tax liabilities	744	993	1,251	1,364
Dividend payable	3,135	3,123	3,128	3,410
Trade and Other payables	31,944	61,676	72,989	68,193
Loans and Borrowings	0	0	0	0
Employee benefits	1,247	1,265	1,356	1,478
Deferred tax liabilities	8,513	10,877	10,844	11,820
Total liabilities	71,107	95,120	118,472	117,815
Net Assets	73,038	74,287	92,680	111,773

Table 7: Profitability Ratio

	2020	2021	2022F	2023F
Gross profit margin	31.93%	28.49%	36.00%	35.50%
Net Profit Margin	-12.05%	0.78%	10.18%	10.08%
operating profit margin	-12.29%	6.15%	15.07%	14.57%
Return on Equity	-17.22%	1.69%	22.91%	20.49%
Return on Assets	-8.73%	0.74%	10.05%	9.98%
Return on Assets	-1.80%	11.51%	22.75%	22.25%
ROCE	-15.38%	11.40%	29.90%	26.43%

Table 8: Asset Utilisation

	2020	2021	2022F	2023F
Cash/Sales	0.05	0.22	0.27	0.27
Sales to inventory (x)	3.95	7.47	6.37	6.45
Sales to total assets (x)	0.72	0.95	0.99	0.99
Sales/EBITDA	-55.63	8.69	4.40	4.49
Sales to total fixed assets	1.17	1.70	2.08	2.08
Equity multiplier	1.97	2.28	2.28	2.05

Table 9: Liquidity Ratios

	2020	2021	2022F	2023F
Quick ratio	0.45	0.64	0.73	0.81
Current ratio	0.89	0.90	1.04	1.15
Cash ratio	0.09	0.43	0.53	0.59
Interest Coverage	3.76	1.25	18.71	18.53
Op. Cash Flow Ratio	-0.21	0.12	0.30	0.32
Debt/net income	-1.84	12.74	1.28	1.29
Debt/operating profit	-1.80	1.62	0.86	0.89
Debt to asset	0.16	0.09	0.13	0.13
Debt to equity	0.32	0.22	0.29	0.26
Total liabilities/equity	0.97	1.28	1.28	1.05
Total liaB./ Total Assets	0.49	0.56	0.56	0.51
Inventory turnover	1.48	2.31	2.30	2.16
Inventory days	124.79	71.11	67.40	84.61
Account rec. days	65.46	31.90	29.20	29.20

Table 10: Shareholders' Investment Ratios

	2020	2021	2022F	2023F
Earnings per share	-5.74	0.57	9.69	10.46
DiV per share	0.00	0.46	3.00	3.50
NAVPS	33.34	33.91	42.31	51.03
Earnings yield	-5.22%	0.52%	8.81%	9.51%
FCFPS	6.98	23.91	7.68	7.76

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

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PanAfrican Capital Holdings Ltd

8A, Elsie Femi Pearse Street

Victoria Island

Lagos, Nigeria

Tel: +234 (1) 2716899, 2718630

www.panafricancapitalholdings.com