

Gradual Recovery from COVID-Induced Setback as Revenue Grows by 53.69%

INVESTMENT SUMMARY

After lacklustre performance of the brewery sector in 2020, there was an improvement in the level of activities in the 2021 after Nigeria government reopened all the public/entertainment centres. The reopening of bars, event centres, cinema, casinos, hotels, among others, reflected on the performance of Guinness Nigeria in the full year of 2020/21 as revenue rose by 53.69% to ₦160.42 billion in FY'20/21 (vs. ₦104.38 billion in FY'19/20) due to improved demand and higher prices. Specifically, the increased demand was notable in Premium Spirit, Mainstream Spirit, Guinness, Malts and Ready-to-Drinks (RTDs). Meanwhile, the cost of sales rose by 61.45% to ₦114.71 billion in FY'20/21 (vs. ₦71.05 billion in FY'19/20), due to higher production volume, FX scarcity and high inflation rate during the period. In addition, the expenditure on administration, marketing and distribution increased by 11.29% to ₦36.56 billion in FY'20/21 (vs. ₦32.86 billion in FY'19/20). Nevertheless, the company recorded operating income of ₦9.87 billion in FY'20/21 (vs. operating loss of ₦12.83 billion in FY'19/20).

As a result of significant reduction in loans and borrowings during the period, the net finance cost fell by 3.29% to ₦4.10 billion in FY'20/21 (vs. ₦4.24 billion in FY'19/20). Consequently, the company reported a profit before tax of ₦5.77 billion in FY'20/21 (vs. loss before tax of ₦17.07 billion in FY'19/20). The company made a provision of ₦4.51 billion for tax during the period (FY'19/20: ₦4.49 billion tax credit). Despite the higher tax provision, the company reported a profit after tax of ₦1.26 billion in FY'20/21 (vs. a loss after tax of ₦12.58 billion in FY'19/20), translated to earning per share of ₦0.57 in FY'20/21 (FY'19/20: loss per share of ₦5.74). Impressively, Guinness rewarded the shareholders with dividend payment of ₦0.46 per share in FY'20/21. Based on the recent figures released by the company, we downgraded to a **HOLD** rating as present forward estimates places the company share price at ₦31.55.

Table 1: Quarterly results highlights

	4Q2021	3Q2021	4Q2020	Q/q Δ	Y/y Δ
Revenue (₦'mn)	45,460	42,606	8,358	+6.70%	+443.9%
Operating profit (₦'mn)	2,231	3,925	(18,051)	-43.16%	-112.3%
Net profit (₦'mn)	(583)	2,155	(13,941)	-127.05%	-95.82%

Source: Bloomberg, PAC Research

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Price:

- Current	₦31.00
- Target	₦31.55
Recommendation:	HOLD

* As at Friday September 10, 2021

Table 2: Stock data

FYE	June
Price Mov't: YtD / 52wk	+63.16%/+121.4%
52-week range	₦13.45 - ₦36.00
30-day Average vol.	45,460
Shares Outstanding ('mn)	2,190.38
Market Cap. (₦bn)	67.90
EPS (₦)	0.57
DPS, ₦- FY2021	0.46

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

Table 3: Key ratios

	FY'21	FY'20
Gross profit margin	28.49%	31.93%
Net profit margin	0.78%	-12.05%
Equity multiplier	2.28x	1.97x
Asset turnover	0.95x	0.72x

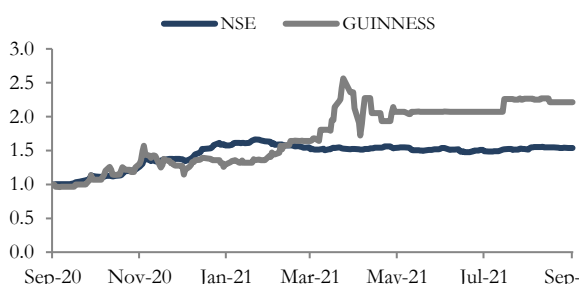
Source: NSE, PAC Research

Table 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E	-5.40x	54.09x	17.05x	12.13x
P/B	0.93x	0.91x	0.83x	0.73x
Sale Per Share	47.65%	73.24%	80.56%	87.01%
EV/EBITDA	-45.20x	2.58x	2.20x	2.09x
P/Sales	0.65x	0.42x	0.38x	0.36x
ROE	-17.22%	1.69%	4.84%	6.04%
ROA	-8.73%	0.74%	2.30%	3.08%
Div. Yield	1.00%	2.88%	1.52%	1.38%

Source: NSE, PAC Research

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



Source: Bloomberg, PAC Research

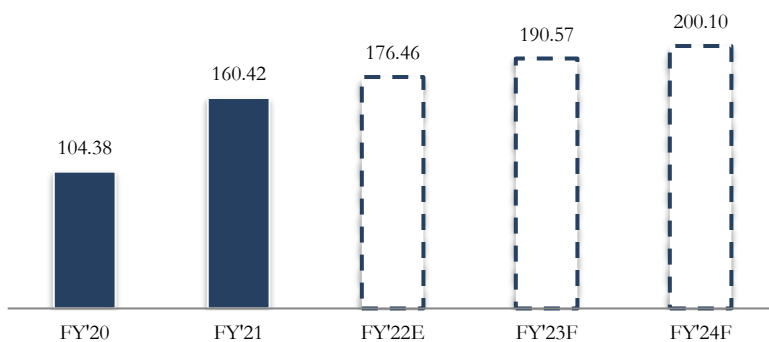
Revenue rises significantly by 53.69% year-on-year, driven by improved demand

and high prices: In 12-month to June 2021, Guinness Nigeria recorded a significant growth in top-line as revenue improved significantly by 53.69% to ₦160.42 billion, when compared with ₦104.38 billion generated in 12-month to June 2020. The impressive growth in the top-line is attributed to higher production volume and improved prices during the period. With the gradual economic recovery, all the business categories of the company experienced double digit growth during the period: Guinness (+50%), Premium Spirit (+121%), Mainstream Spirit (+75%), Malts (+50%) and RTDs (+37%). To mitigate inflation impacts and maintain category margins, the company increased prices across all the business categories during the period. The distribution of revenue showed that the Beer category contributed about 34% to overall revenue, followed by Malts (34%), Spirits (22%) and RTD (7%). Of the total revenue reported during the period, ₦158.95 billion (vs. ₦102.58 billion in FY'19/20) was generated within the country while ₦1.47 billion (vs. ₦1.80 billion in FY'19/20) was generated outside the country.

To mitigate inflation impacts and maintain category margins, the company increased prices across all the business categories during the period.

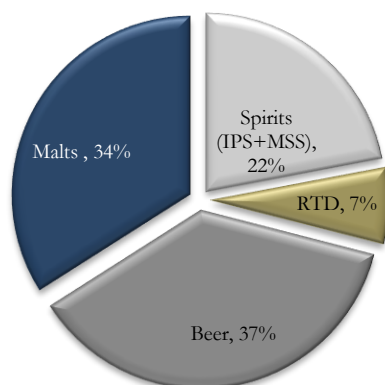
Going forward, we expect the revenue of the company to continue to increase as we expect increasing economic activities to have significant impact on the demand for brewery products. However, the capacity of the countries to improve vaccination and overcome the Delta variant of COVID-19 is a factor to watch.

Fig. 2: Net Revenue – FY'20 - FY'24F (Billion NGN)



Source: NSE, PAC Research

Fig. 3: Net Revenue by Category – FY'20/21



Source: Guinness Nigeria Plc, PAC Research

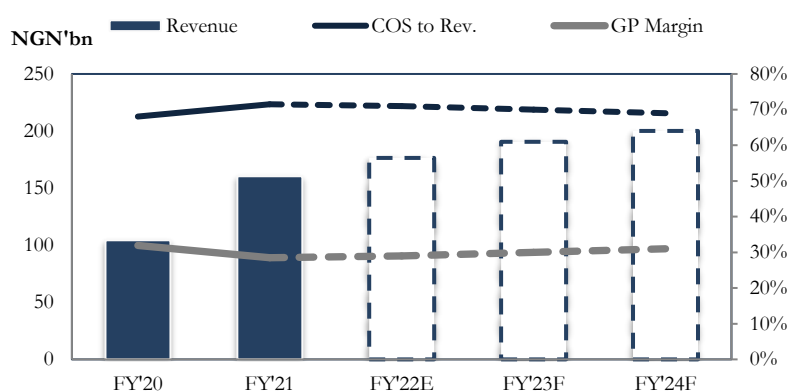
Cost of sales increases by 61.45% year-on-year, driven by higher production volume and high inflation rate: In the full year of 2020/21, the company witnessed a major challenge in the cost of inputs as the cost of sales increased by 61.45% to ₦114.71 billion (vs. ₦71.05 billion in the full year of 2019/20) and this translated to higher cost-to-sale ratio of 71.51% (vs. 68.07% in full year of 2019/20). However, the management attributed the higher cost of sales to high inflation rate, FX scarcity and improved production volume during the period. Specifically, the improved production volume reflected on the raw materials and consumables (which constituted about 53% of the total cost of sales) as it increased by 91.66% to ₦84.23 billion in FY'20/21 (vs. ₦43.95 billion in FY'19/20).

In addition, the marketing and distribution expenses increased significantly by 40.78% to ₦26.07 billion in FY'20/21 (vs. ₦18.52 billion in FY'19/20) as the company continued to expand its distribution channels in the country and improve advertisement on its various brands. However, administrative expenses of the company fell significantly by 26.79% to ₦10.50 billion in FY'20/21 (vs. ₦14.34 billion in FY'19/20).

With the depreciation of Naira in the FX market, relatively high inflation rate and improved demand for brewery products in the market, the cost of sales may continue to increase further in the coming quarters. In addition, the marketing and distribution expenses may increase further in the coming quarters as the company may leverage on advertisement to create awareness among consumers after reopening of public entertainment centres.

Specifically, the improved production volume reflected on the raw materials and consumables (which constituted about 53% of the total cost of sales) as it increased by 91.66%...

Fig. 4: Revenue, COS to Rev. and GP Margin – FY'20 - FY'24F



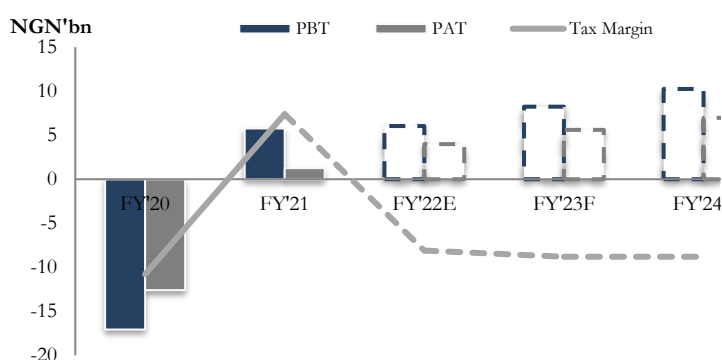
Source: NSE, PAC Research

With impressive operating and non-operating performance, Guinness Nigeria reported a pre-tax profit of ₦5.77 billion in FY'20/21: In addition to impressive operation performance, the company reported improved non-operating performance as net finance costs declined by 3.29% to ₦4.10 billion in the full year of 2020/21 from ₦4.24 billion recorded in the full year of 2019/20. The improvement in the non-operating activities of the company may be attributed to gain on revaluation of foreign currency balances.

With improved performance across board, the company recorded a pre-tax profit of ₦5.77 billion, recovered from the pre-tax loss of ₦17.07 billion recorded in the full year of 2019/20. However, the company made a provision of ₦4.51 billion for tax in the full year of 2020/21 (vs. tax credit of ₦4.49 billion in the full year of 2019/20). This is one-off tax charge as settlement of an old tax audit. Consequently, the company reversed the loss recorded last year after it recorded a profit after tax of ₦1.26 billion in the full year of 2020/21 (vs. a loss after tax of ₦12.57 billion in the full year of 2019/20) and this translated to earning per share (EPS) of ₦0.57 in FY'20/21.

With the expectation of improved demand and lower debt to service, the company may improve its bottom-line in coming quarters.

Fig. 5: PBT, PAT and Tax Margin – FY'20 – FY'24F



Source: NSE, PAC Research

The financial position remains stout: Guinness Nigeria rewarded the shareholders with ₦0.46 dividend per share: In the full year of 2020/21, Guinness Nigeria reported impressive numbers in the balance sheets during the period and this reflected on the total assets of the company. The total assets increased by 17.52% to ₦169.41 billion in FY'20/21 (vs. ₦144.15 billion in FY'19/20), driven mainly by significant increase in the current assets of the company. With an increase of about 580.47% in cash and cash equivalent, the current assets of the company increased by 438.47% to ₦74.74 billion in FY'20/21 (vs. ₦53.97 billion in FY'19/20).

However, the total liabilities increased by 33.77% to ₦95.12 billion in FY'20/21 (vs. ₦71.11 billion in FY'19/20), despite the significant reduction in loans and borrowings during the period. The increase in total liabilities of the company was ascribed to 93.07% increase in trades and other payables as the company continue to manage its account payables days. This may be linked to the reduced leverage during the period. Meanwhile, the increase in total assets outweighed the increase in the total liabilities of the company and this resulted in higher net assets, which increased by 1.71% to ₦74.29 billion in FY'20/21 (vs. ₦73.04 billion in FY'19/20). The improvement in the net assets of the company resulted in higher net asset per share (NAPS) of ₦33.91 in FY'20/21 (FY'19/20: ₦33.34).

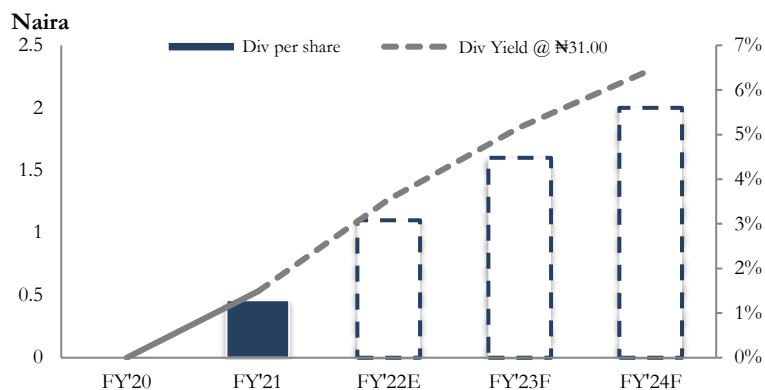
...the company reversed the loss recorded last year as it recorded a profit after tax of ₦1.26 billion in the full year of 2020/21...

...the increase in total assets outweighed the increase in the total liabilities of the company and this resulted in higher net assets, which increased by 1.71% to ₦74.29 billion...

Impressively, the company rewarded the shareholders with a dividend per share of ₦0.46 in the full year of 2020/21. This is an improvement compared to the full year of 2019/20 when the company made a loss of about ₦12.58 billion and recorded zero dividend payment.

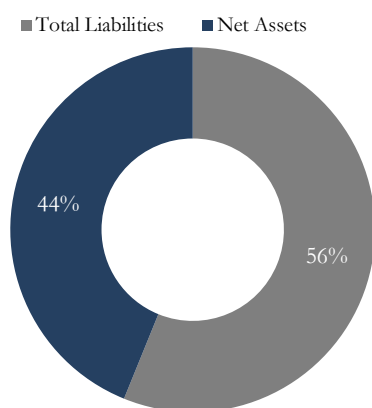
With the expectation of improved operating performance in the coming quarters, we may likely see a robust balance sheet and improved dividend payment going forward (**fig. 6**)

Fig. 6: Dividend Per Share and Dividend Yield - FY'20 -FY'24F



Source: NSE, PAC Research

Fig. 7: Total Liabilities Vs Net Asset in FY'21



Source: NSE, PAC Research

Valuation

Our valuation sets the target price of the stock at ₦31.55, representing an increase of 1.78% from the current price of ₦31.00. In arriving at the target price, we employed discounted cashflow valuation methodology. Consequently, we downgraded to a **HOLD** 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 challenging operating environment in Nigeria and increased competition within the industry.

Our valuation puts the target price of the stock at ₦31.55, representing an increase of 1.78% from the current price of ₦31.00

Fig. 8: Share Price History (Naira)



Source: NSE, PAC Research

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

	2020	2021	2022F	2023F
Revenue	104,376	160,416	176,458	190,575
<i>Change</i>		53.69%	10.00%	8.00%
Cost of sales	71,046	114,706	125,285	133,402
<i>Change</i>		61.45%	9.22%	6.48%
Gross profit	33,330	45,710	51,173	57,172
<i>Change</i>		37.14%	11.95%	11.72%
Other income	503	1,030	1,500	1,620
<i>Change</i>		104.75%	45.65%	8.00%
Marketing & Distr. Exp.	18,515	26,066	29,116	31,445
<i>Change</i>		40.78%	11.70%	8.00%
Administrative expenses	14,340	10,498	12,352	13,721
<i>Change</i>		-26.79%	17.66%	11.09%
Results from op. activities	-12,832	9,871	10,623	12,997
<i>Change</i>		-176.93%	7.61%	22.35%
Net Finance costs	4,241	4,102	4,588	4,764
<i>Change</i>		-3.29%	11.85%	3.85%
Profit Before Taxation	-17,074	5,770	6,035	8,233
<i>Change</i>		-133.79%	4.60%	36.42%
Taxation	-4,495	4,514	2,052	2,635
<i>Change</i>		-200.43%	-54.55%	28.40%
Profit After Taxation	-12,579	1,255	3,983	5,598
<i>Change</i>		-109.98%	217.29%	40.56%

Table 6: Statement of Financial Position, N'mn

	2020	2021	2022F	2023F
Property plant and equipment	88,919	94,237	97,052	104,816
Intangible assets and goodwill	309	2	529	572
Right-of-use assets	943	432	529	572
Other receivables	0	0	0	0
Prepayments	2	0	4	4
Inventories	26,426	21,461	24,704	26,680
Trade and other receivables	18,719	14,019	14,117	15,246
Cash and cash equivalents	5,271	35,869	31,762	28,586
Total Assets	144,146	169,407	173,426	181,583
current tax liabilities	744	993	1,059	1,143
Dividend payable	3,135	3,123	4,411	4,764
Trade and Other payables	31,944	61,676	52,937	47,644
Loans and Borrowings	0	0	0	0
Employee benefits	1,247	1,099	2,117	2,287
Deferred tax liabilities	8,513	10,877	11,470	12,387
Total liabilities	71,107	95,120	91,158	88,960
Net Assets	73,038	74,287	82,268	92,623

Table 7: Profitability Ratio

	2020	2021	2022F	2023F
Gross profit margin	31.93%	28.49%	29.00%	30.00%
Net Profit Margin	-12.05%	0.78%	2.26%	2.94%
operating profit margin	-12.29%	6.15%	6.02%	6.82%
Return on Equity	-17.22%	1.69%	4.84%	6.04%
Return on Assets	-8.73%	0.74%	2.30%	3.08%
Return on Assets	-1.80%	11.51%	13.70%	14.50%
ROCE	-15.38%	11.42%	11.06%	12.09%

Table 8: Asset Utilisation

	2020	2021	2022F	2023
cash/.sales	0.05	0.22	0.18	0.15
Sales to inventory (x)	3.95	7.47	7.14	7.14
Sales to total assets (x)	0.72	0.95	1.02	1.05
sales/EBITDA	-55.63	8.69	7.30	6.90
Sales to total fixed assets	1.17	1.70	1.82	1.82
Equity multiplier	1.97	2.28	2.11	1.96

Table 9: Liquidity Ratios

	2020	2021	2022F	2023F
Quick ratio	0.45	0.64	0.65	0.66
Current ratio	0.89	0.90	0.97	1.02
Cash ratio	0.09	0.43	0.41	0.39
Interest Coverage	3.76	1.25	1.14	1.44
Op. Cash Flow Ratio	-0.21	0.12	0.14	0.18
Debt/net income	-1.84	12.74	4.43	3.40
Debt/operating profit	-1.80	1.62	1.66	1.47
Debt to asset	0.16	0.09	0.10	0.10
Debt to equity	0.32	0.22	0.21	0.21
Total liabilities/equity	0.97	1.28	1.11	0.96
Total liaB./ Total Assets	0.49	0.56	0.53	0.49
Inventory turnover	1.48	2.31	2.51	2.60
Inventory days	124.79	71.11	66.87	70.30
Account rec. days	65.46	31.90	29.20	29.20

Table 10: Shareholders' Investment Ratios

	2017	2018	2019F	2020F
Earnings per share	-5.74	0.57	1.82	2.56
DiV per share	0.00	0.46	1.10	1.60
NAVPS	33.34	33.91	37.56	42.29
Earnings yield	-18.5%	1.85%	5.87%	8.24%
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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