

Post-COVID Surge in Demand Raises Revenue by 29% in FY-2021/22

INVESTMENT SUMMARY

The brewery segment of Nigerian economy continued with strong recovery path, following the reopening of public/entertainment centres by the Nigeria government. The improved activities in bars, event centres, cinemas, casinos, hotels, among others, led to improved demand in various brands of Guinness Nigeria in 2021/22. Specifically, the increased demand was notable in Malta, Mainstream Spirit (MSS) and Ready-to-Drinks (RTDs). The increase in demand, in addition to price increase, resulted in impressive performance of the company as revenue accelerated by 28.93% to ₦206.82 billion in FY'21/22 (vs. ₦160.42 billion in FY'20/21). Meanwhile, the slight increase in aggregate production volume and the persistent rising inflation across the world resulted in higher cost of sales as it rose by 16.96% to ₦134.16 billion in FY'21/22 (vs. ₦114.71 billion in FY'20/21). In addition, expenditure on administration, marketing and distribution increased by 40.33% to ₦51.06 billion in FY'21/22 (vs. ₦36.56 billion in FY'20/21). Despite the higher operating expenses, the EBITDA of the company grew by 76.14% to ₦32.51 billion in FY'21/22 (vs. ₦18.46 billion in FY'20/21).

The net finance cost fell by 94.49% to ₦0.23 billion in FY'21/22 (vs. ₦4.10 billion in FY'20/21), driven by higher interest income arising from financial assets, lower expenses on loans and borrowings, among others. The impressive performance across board mirrored in profit before tax as it grew significantly by 310.33% to ₦23.67 billion in FY'21/22 (vs. ₦5.77 billion in FY'20/21). The company made higher provision of ₦8.02 billion for tax during the period (FY'20/21: ₦4.51 billion). The profit after tax grew by 1146.78% of ₦15.65 billion in FY'21/22 (vs. ₦1.26 billion in FY'20/21), translated to earning per share of ₦7.15 (FY'20/21: ₦0.57). Impressively, shareholders were rewarded with dividend payment of ₦7.14 per share in FY'21/22 (FY'20/21: ₦0.46). Based on the figures released by the company, we upgrade to a **HOLD** rating as present forward estimates places the company share price at ₦83.51 (Previous TP: ₦75.66).

Table 1: Quarterly results highlights

	4Q2022	3Q2022	4Q2021	Q/q Δ	Y/y Δ
Revenue (₦'mn)	47,378	50,320	45,460	-5.85%	+4.22%
Operating profit (₦'mn)	1,105	9,293	2,231	-88.11%	-50.47%
Net profit (₦'mn)	373	6,457	(583)	-94.22%	-164.0%

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Price:

- Current **₦83.00**

- Target **₦83.51**

Recommendation: **HOLD**

* As at Monday August 8, 2022

Table 2: Stock data

FYE	June
Price Mov't: YtD / 52wk	+112.82%/+161.83%
52-week range	₦29.05 - ₦110.00
30-day Average vol.	318,812
Shares Outstanding ('mn)	2,190.38
Market Cap. (₦bn)	181.080
EPS (₦)	7.15
DPS, ₦- FY2022	7.14

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

Table 3: Key ratios

	FY'22	FY'21
Gross profit margin	35.13%	28.49%
Net profit margin	7.57%	0.78%
Equity multiplier	2.40x	2.28x
Asset turnover	0.96x	0.95x

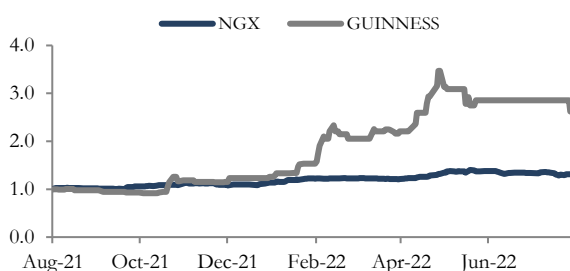
Source: NGX, PAC Research

Table 4: Valuations

	FY2021	FY2022	FY2023F	FY2024F
P/E	144.82x	11.62x	6.64x	6.16x
P/B	2.45x	2.02x	1.91x	1.76x
Sale Per Share	73.24%	94.42%	122.75%	133.80%
EV/EBITDA	8.75x	4.42x	2.34x	2.15x
P/Sales	1.13x	0.88x	0.68x	0.62x
ROE	1.69%	17.39%	28.72%	28.65%
ROA	0.74%	7.26%	11.41%	11.32%
Div. Yield	0.55%	8.60%	9.64%	10.24%

Source: NGX, PAC Research

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



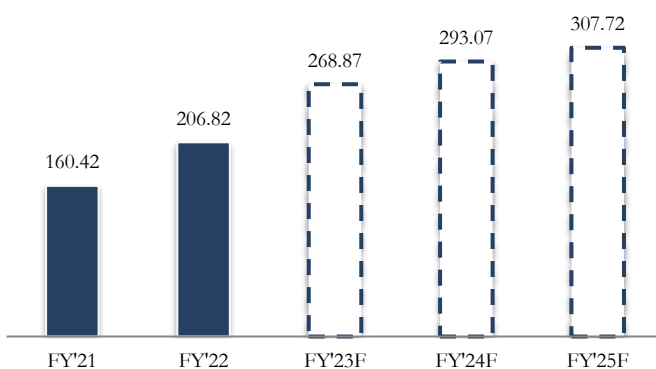
Source: Bloomberg, PAC Research

Revenue grows by 28.93% year-on-year, driven by improved demand and high prices:

Guinness Nigeria maintained upward trend in the top-line as revenue of the company improved significantly by 28.93% to ₦206.82 billion in the full year of 2021/22, when compared with ₦160.42 billion reported in the full year of 2020/21. The impressive growth in the top-line is attributed to slight increase in production volume and higher prices in various brands during the period. Specifically, Malta, Ready-To-Drinks (RTDs) and Mainstream Spirit are the main drivers of the aggregate production volume as they increased by 40%, 15% and 5% respectively. However, the strong competition in the market showed in Guinness, Dubic and International Premium Spirits as the production volume of these brand fell by 3%, 59% and 16% respectively. The distribution of revenue during the period showed that Guinness has highest contribution of ₦69.52 billion to total revenue, followed by Malta (₦60.72 billion), MSS (₦32.70 billion) and RTDs (₦17.62 billion). In terms of revenue growth, Malta reported the highest growth of 74.0% in FY'21/22, followed by RTD (56%), MSS (34%) and Guinness (23%). Of the total revenue reported during the period, ₦204.87 billion (vs. ₦158.95 billion in FY'20/21) was generated within the country while ₦1.95 billion (vs. ₦1.47 billion in FY'20/21) was generated outside the country.

Going forward, we may likely see sluggish growth in production volume of the company as we expect the persistent rising inflation to reduce purchasing power of consumers in coming quarters. However, we may continue to witness increase in revenue of the company as we expect the recent increase in the prices of various brands to have positive impact on the top-line of the company in coming quarters.

Fig. 2: Net Revenue – FY'21 – FY'25F (Billion NGN)



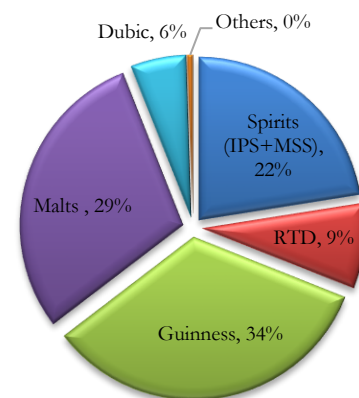
Source: NGX, PAC Research

Cost of sales rises by 16.96% year-on-year, mainly driven by high inflation rate:

The slight increase in aggregate production volume and the rising global commodity prices had significant impact on the input costs of Guinness Nigeria in the full year of 2021/22 as the cost of sales increased by 16.96% to ₦134.16 billion (vs. ₦114.71 billion in the full year of 2020/21). Specifically, the rising global commodity prices weighed on the cost of raw materials and consumables (which constituted about 72% of the total cost of sales) as it grew by 15.28% to ₦97.10 billion in the full year of 2021/22 (vs. ₦84.23 billion in the full year of 2020/21).

...Malta, Ready-To-Drinks (RTDs) and Mainstream Spirit are the main drivers of the aggregate production volume as they increased by 40%, 15% and 5% respectively.

Fig. 3: Net Revenue by Category – FY'21/22



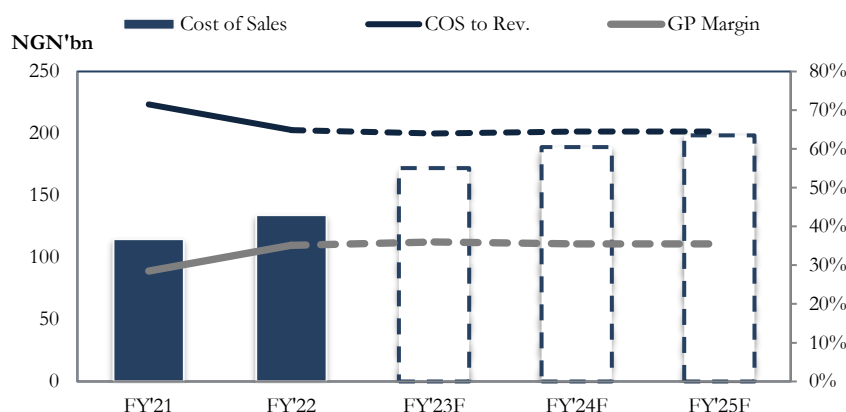
Despite the significant increase in the cost of sales, the company upheld strong minimisation strategy as cost-to-sale ratio fell by 664 basis point to 64.87% in FY'21/22, from 71.51% recorded in FY'20/21.

The marketing and distribution expenses increased significantly by 43.28% to ₦37.35 billion in FY'21/22 (vs. ₦26.07 billion in FY'20/21) as the company continued to expand its distribution channels in the country and improve advertisement on its various brands. In addition, the administrative expenses of the company increased significantly by 32.87% to ₦13.71 billion in FY'21/22 (vs. ₦10.32 billion in FY'20/21).

The on-going war between Russia and Ukraine have resulted in global supply chain disruption and hike in prices of agricultural commodities such as wheat, hops, cereal grain, barley, among others. Consequently, this is expected to raise the cost of sales in the coming quarters. In addition, the weak local currency and high inflation rate will not only have adverse impact on the cost of sales but the marketing and distribution expenses in coming quarters.

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Fig. 4: Cost of Sales, COS to Rev. and GP Margin – FY'21 - FY'25F



Source: NGX, PAC Research

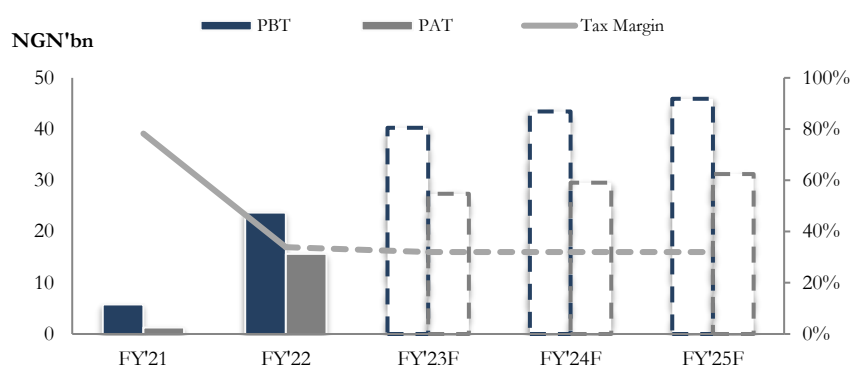
With impressive performance across board, net profit grows significantly by 1147% year-on-year: In addition to impressive operating performance, Guinness Nigeria reported improved non-operating performance as net finance costs declined significantly by 94.49% to ₦0.23 billion in 2021/22 (vs. ₦4.10 billion reported 2020/21). The improvement in the non-operating activities of the company is attributed to higher total interest income arising from financial assets, gain on revaluation of foreign currency balances, gain on remeasurement of foreign currency balances, lower finance expense on loans and borrowings, among others.

With outstanding performance across board, the profit before tax of the company grew by 310.33% to ₦23.67 billion in the full year of 2021/22 (vs. ₦5.77 billion in 2020/21). However, the company made a higher provision of ₦8.02 billion for tax in 2021/22 (vs. ₦4.51 billion in 2020/21).

Consequently, profit after tax accelerated by 1146% to ₦15.65 billion in the full year 2021/22 (vs. ₦1.26 billion in the full year of 2020/21) and this translated to earnings per share (EPS) of ₦7.15 in FY'20/21 (FY'20/21: ₦0.57).

Although, we assume slowdown in demand for some brands due to the deteriorating consumers' purchasing power in the market, however, we expect the company to benefit from increase in the prices of various products of the company. In addition, we expect the company to maintain strong cost-minimisation strategy, especially in the face of rising inflation rate. Hence, we expect significant improvement in the bottom-line of the company in coming quarters.

Fig. 5: PBT, PAT and Tax Margin – FY'21 – FY'25F



Source: NGX, PAC Research

The financial position remains healthy and stout as Guinness Nigeria rewarded shareholders with ₦7.14 dividend per share: In the full year of 2020/22, Guinness Nigeria reported impressive figures in the balance sheets, and this reflected on the total assets of the company. The total assets grew by 27.30% to ₦215.66 billion in FY'21/22 (vs. ₦169.41 billion in FY'20/21), driven by higher inventories, cash and cash equivalents and additional investment in property, plant & equipment. increase in the current assets of the company. With an increase of about 742% in short-term deposit, the cash and cash equivalent increased by 92.66% to ₦69.10 billion in FY'21/22 (vs. ₦35.87 billion in FY'20/21). Also, the total inventories of the company increased by 49.11% to ₦32.00 billion in FY'21/22 (vs. ₦21.46 billion in FY'20/21), mainly driven by 115% rise in finished products inventory as the company maintained adequate preparation to meet demand for all its products during the period.

However, the total liabilities increased by 32.13% to ₦125.68 billion in FY'21/22 (vs. ₦95.12 billion in FY'21/22), mainly driven by significant increase in loans and borrowings. As a result of higher letters of credit, the company's total loans and borrowing increased by 95.77% to ₦31.31 billion in FY'21/22 (vs. ₦15.99 billion in FY'21/22).

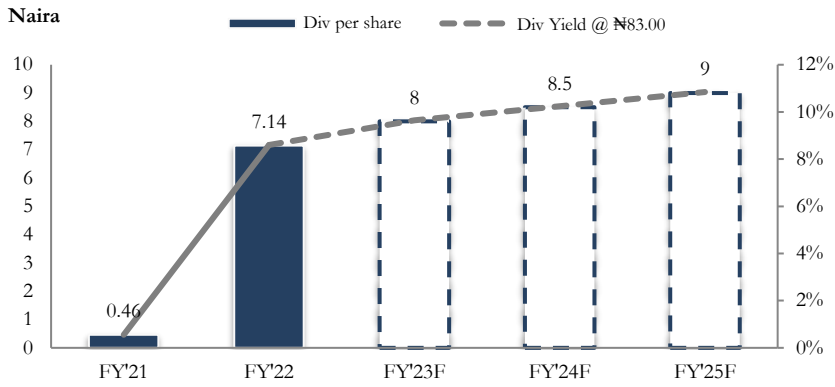
The improvement in the total assets outweighed the increase in the total liabilities of the company during the period. Consequently, the net assets of the company rose by 21.12% to ₦89.98 billion in FY'21/22 (vs. ₦74.29 billion in FY'20/21), translating to a net asset per share of (NAPS) of ₦41.08 in FY'21/22 (FY'20/21: ₦33.91)

...115% rise in finished products inventory as the company maintained adequate preparation to meet demand for all its products during the period.

Impressively, the company rewarded the shareholders with a dividend per share of ₦7.14 in FY'21/22 (FY'20/21: ₦0.46), representing about 100% dividend payout ratio during the period. With the anticipation of improved operating performance in the coming quarters, we may likely see a strong balance sheet and higher dividend in the full year of 2022/23 (fig. 6).

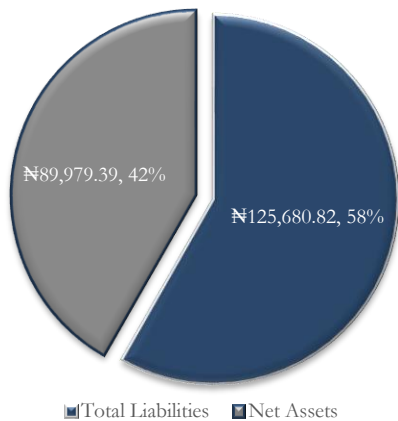
... With the anticipation of improved operating performance in the coming quarters, we may likely see a strong balance sheet and higher dividend in the full year of 2022/23.

Fig. 6: Dividend Per Share and Dividend Yield - FY'21 -FY'25F



Source: NGX, PAC Research

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



Source: NGX, PAC Research

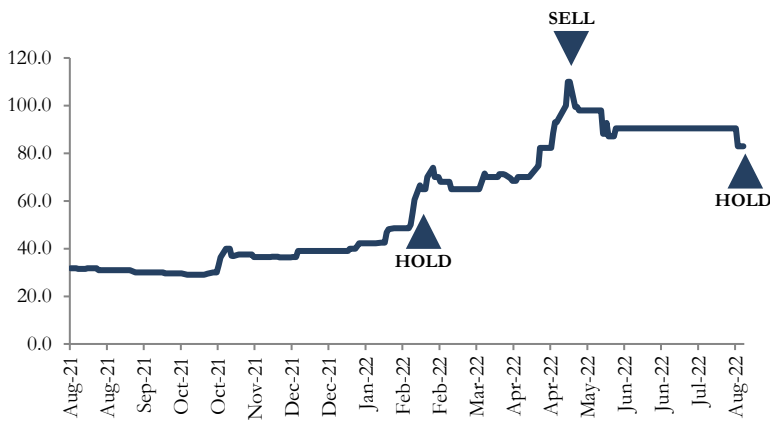
Valuation

Our valuation sets the target price of the stock at ₦83.51, representing an increase of 0.61% from the current price of ₦83.00. In arriving at the target price, we employed discounted cashflow valuation and dividend discount methodology. Consequently, we upgraded 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 the global supply chain disruptions.

Our valuation sets the target price of the stock at ₦83.51, representing an increase of 0.61% from the current price of ₦83.00

Fig. 8: Share Price History (Naira)



Source: NGX, PAC Research

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

	2021	2022	2023F	2024F
Revenue	160,416	206,822	268,869	293,067
<i>Change</i>		28.93%	30.00%	9.00%
Cost of sales	114,706	134,159	172,076	189,028
<i>Change</i>		16.96%	28.26%	9.85%
Gross profit	45,710	72,663	96,793	104,039
<i>Change</i>		58.96%	33.21%	7.49%
Other income	1,030	2,740	3,764	4,103
<i>Change</i>		166.06%	37.38%	9.00%
Marketing & Distr. Exp.	26,066	37,347	45,708	49,821
<i>Change</i>		43.28%	22.39%	9.00%
Administrative expenses	10,317	13,709	13,443	14,653
<i>Change</i>		32.87%	-1.93%	9.00%
Results from op. activities	9,871	23,900	40,519	42,700
<i>Change</i>		142.11%	69.53%	5.38%
Net Finance costs	4,102	226	269	-733
<i>Change</i>		-94.49%	19.02%	372.50%
Profit Before Taxation	5,770	23,674	40,250	43,433
<i>Change</i>		310.33%	70.02%	7.91%
Taxation	4,514	8,023	12,880	13,898
<i>Change</i>		77.72%	60.54%	7.91%
Profit After Taxation	1,255	15,651	27,370	29,534
<i>Change</i>		1146.78%	74.87%	7.91%

Table 6: Statement of Financial Position, N'mn

	2021	2022	2023F	2024F
Property plant and equipment	94,237	97,686	99,481	108,435
Intangible assets and goodwill	2	0	134	147
Right-of-use assets	432	369	807	879
Other receivables	0	0	0	0
Prepayments	0	5	5	6
Inventories	21,461	32,001	42,212	45,425
Trade and other receivables	14,019	14,079	18,821	20,515
Cash and cash equivalents	35,869	69,104	72,595	79,128
Total Assets	169,407	215,660	239,971	260,835
current tax liabilities	993	8,740	1,613	1,758
Dividend payable	3,123	1,933	4,033	4,396
Trade and Other payables	61,676	69,683	86,038	93,781
Loans and Borrowings	0	0	0	0
Employee benefits	1,099	1,328	1,748	1,905
Deferred tax liabilities	10,877	10,443	13,981	15,239
Total liabilities	95,120	125,681	144,678	157,758
Net Assets	74,287	89,979	95,292	103,078

Table 7: Profitability Ratio

	2021	2022	2023F	2024F
Gross profit margin	28.49%	35.13%	36.00%	35.50%
Net Profit Margin	0.78%	7.57%	10.18%	10.08%
operating profit margin	6.15%	11.56%	15.07%	14.57%
Return on Equity	1.69%	17.39%	28.72%	28.65%
Return on Assets	0.74%	7.26%	11.41%	11.32%
Return on Assets	11.51%	15.72%	22.75%	22.25%
ROCE	11.42%	23.45%	36.40%	35.42%

Table 8: Asset Utilisation

	2021	2022	2023F	2024F
cash/sales	0.22	0.33	0.27	0.27
Sales to inventory (x)	7.47	6.46	6.37	6.45
Sales to total assets (x)	0.95	0.96	1.12	1.12
sales/EBITDA	8.69	6.36	4.40	4.49
Sales to total fixed assets	1.70	2.12	2.70	2.70
Equity multiplier	2.28	2.40	2.52	2.53

Table 9: Liquidity Ratios

	2021	2022	2023F	2024F
Quick ratio	0.64	0.75	0.76	0.76
Current ratio	0.90	1.03	1.08	1.08
Cash ratio	0.43	0.61	0.56	0.56
Interest Coverage	1.25	11.11	18.71	18.53
Op. Cash Flow Ratio	0.12	0.21	0.31	0.30
Debt/net income	12.74	2.00	1.28	1.29
Debt/operating profit	1.62	1.31	0.86	0.89
Debt to asset	0.09	0.15	0.15	0.15
Debt to equity	0.22	0.35	0.37	0.37
Total liabilities/equity	1.28	1.40	1.52	1.53
Total liaB./ Total Assets	0.56	0.58	0.60	0.60
Inventory turnover	2.31	2.55	2.55	2.16
Inventory days	71.11	67.76	54.37	84.61
Account rec. days	31.90	24.85	25.55	25.55

Table 10: Shareholders' Investment Ratios

	2021	2022	2023F	2024F
Earnings per share	0.57	7.15	12.50	13.48
DiV per share	0.46	7.14	8.00	8.50
NAVPS	33.91	41.08	43.50	47.06
Earnings yield	0.69%	8.61%	15.05%	16.25%
FCFPS	23.91	7.68	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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