Guinness Nigeria Plc

| Ideas | Partnerships | Solutions |

Nigeria | Equities | Consumer Goods | February 4, 2022 PAC RESEARCH

Resilient Consumer Demand and Higher Prices Raise Revenue by 51% in H1-2021/22

INVESTMENT SUMMARY

Improvement in the economic activities in the country continued to reflect on the performance of Guinness Nigeria as revenue grew significantly by 50.83% to ₦109.12 billion in the first half of 2021/22, from ₦72.35 billion achieved in the first half of 2020/21. The increase in the revenue was mainly driven by strong consumer demand and higher prices in Ready-to-Drink (RTDs), Premium Spirits, Mainstream Spirits, Guinness and Malts brand categories. However, the company witnessed significant increase in the cost of sales as it accelerated by 35.06% to ₦72.62 billion in H1'21/22 (vs. ₦53.77 billion in H1'20/21), due to higher production volume, weak local currency and inflationary pressure during the period. Also, the expenditure on administration, marketing and distribution rose by 56.04% to ₦24.29 billion in H1'21/22 (vs. ₦15.57 billion in H1'20/21). Notwithstanding the notable growth in the operating expenses of the company during the period, the total operating income grew significantly by 256.80% to ₦13.59 billion in H1'21/22 (vs. ₦3.72 billion recorded in H1'20/21).

Impressively, the net finance cost of the company declined by 74.42% to ₦0.62 billion in H1'21/22 (vs. ₦2.42 billion in H1'20/21), driven by 79% fall in finance expense on loans and borrowings, and 58% decline in loss on re-measurement of foreign currency balances. The impressive performance across the board reflected positively on the profitability of the company as profit before tax grew significantly by 902.76% to ₦12.97 billion in H1'21/22 (vs. ₦1.29 billion in H1'20/21). Guinness Nigeria made a higher provision of ₦4.15 billion for tax during the period (H1'20/21: ₦1.61 billion). As a result, profit after tax improved significantly to ₦8.82 billion in H1'21/22, from a loss after tax of ₦0.32 billion recorded in H1'20/21. This resulted in 12-month trailing earnings per share of ₦4.75 during the period. With the impressive performance of the company in H1'21/22 and positive outlook, we upgrade our forecast to ₦48.14 (Previous: ₦37.60) and maintain a **HOLD** recommendation on the stocks.

Table. 1: Quarterly results highlights

	2Q2022	1Q2022	2Q2021	Q/q Δ	Y/y Δ
Revenue (₦'mn)	61,655	47,469	42,327	+29.88%	+45.66%
Operating profit (₦'mn)	7,085	6,506	3,129	+8.90%	+126.4%
Net profit (₦'mn)	4,777	4,044	(317)	-793.7%	-1607%

Source: NGX, PAC Research

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Price:	
- Current	**₦48.55**
- Target	**₦48.14**
Recommendation:	**HOLD**

** As at Friday February 4, 2022*

Table. 2: Stock data

FYE	June
Price Mov't: YtD / 52wk	+24.49%/+155.53%
52-week range	₦18.90 - ₦51.20
30-day Average vol.	477,923
Shares Outstanding ('mn)	2,190.38
Market Cap. (₦bn)	106.34
Trailing 12-Month EPS (₦)	4.75
DPS, ₦- FY2021	0.46

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

Table. 3: Key ratios

	H1'22	H1'21
Gross profit margin	33.46%	25.69%
Net profit margin	8.08%	-0.44%
Equity multiplier	2.39x	2.04x
Asset turnover	0.55x	0.49x

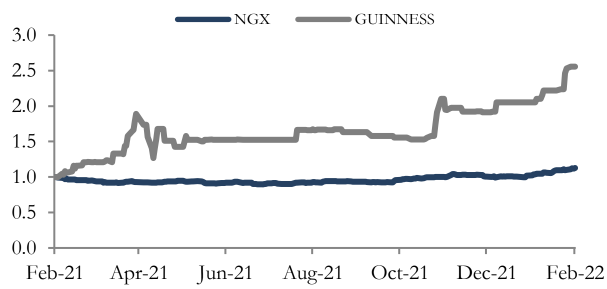
Source: NGX, PAC Research

Table. 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E	-8.45x	84.71x	7.24x	5.87x
P/B	1.46x	1.43x	1.19x	0.98x
Sale Per Share	47.65%	73.24%	95.21%	103.78%
EV/EBITDA	-65.69x	4.66x	1.89x	1.61x
P/Sales	1.02x	0.66x	0.51x	0.47x
ROE	-17.22%	1.69%	16.38%	16.63%
ROA	-8.73%	0.74%	7.13%	8.07%
Div. Yield	0.00%	0.95%	5.15%	6.18%

Source: NGX, PAC Research

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



Source: Bloomberg, PAC Research

Please read the Important Disclosures at the end of this report.

Revenue rises by 50.83% year-on-year, driven by strong demand and higher prices across all the brand categories: In line with our projection, Guinness Nigeria continued to benefit from improved demand in bars, event centres, cinemas, casinos, hotels, among others, as revenue increased by 50.83% to ₦109.24 billion in the first half of 2021/22 (vs. ₦72.35 billion in first half of 2020/21). In addition to improved demand, the company also benefitted from continuous investment in various brands and higher prices in all the business categories during the period. Specifically, Malt business category recorded the highest revenue growth of 149% in the first half of 2021/22, followed by Ready-to-Drink category (+80%), Premium Spirits (+59%), Mainstream Spirits (+38%) and Guinness (+33%). In addition, Malt business category remained the highest contributor to the top-line as it contributed 36% to overall revenue, followed by Beer category (32%), Spirits - Mainstream & Premium Spirit (24%) and Ready-to-Drink (8%). **(fig. 3)**

Impressively, revenue from the total export improved significantly by 32.44% to ₦1.09 billion in the first half of 2021/22 (vs. ₦0.82 billion in first half of 2020/21), driven by improved demand in other African countries. In the coming quarters, we may continue to see significant increase in the top-line due to the anticipation of improved demand and current higher prices in various categories.

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Fig. 2: Net Revenue – 6M'22 – 12M'24F (Billion NGN)

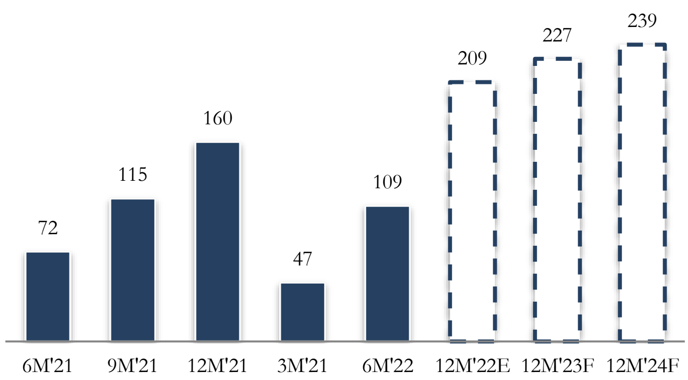
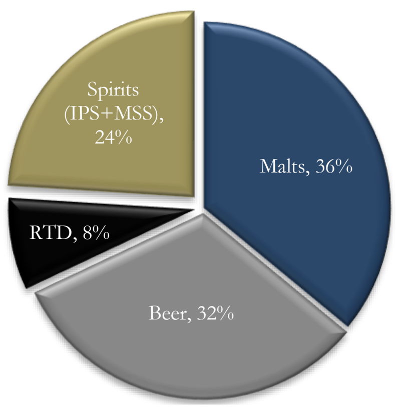


Fig. 3: Contribution to Revenue by Categories – H1'21/22



Source: NGX, PAC Research

Cost of Sales grows by 35.06% year-on-year, driven by inflationary pressure, and improved volumes across all the business categories: In the first half of 2021/22, cost of sales of Guinness Nigeria increased by 35.06% to ₦72.62 billion (vs. ₦53.73 billion in first half of 2020/21), due to improved production volumes across all the business categories during the period. In addition, the inflationary pressure (both on locally sourced products and imports) and foreign exchange challenges have negative impact on the input costs during the period. Although the cost of sales increased by 35.06%, the cost-to-sales margin fell by 777 bps to 66.54% in H1'21/22, from 74.31% reported in H1'21/22, which showed that the company's cost minimisation strategy is working.

In addition, expenditure on administration, marketing and distribution increased by 56.04% to ₦24.29 billion in H1'21/22 (vs. ₦15.57 billion in H1'20/21), which may be attributed to the wider distribution coverage within the country, improved production volumes and more expenses on advertisement during the period.

We may continue to see high of cost of sale across the business categories in the second half of 2021/22 due to improved production volume, expectation of high inflation rate and foreign exchange challenges in the country. Nevertheless, we expect continuous improvement in the cost-to-sales ratio as we expect the company to continue to enjoy economies of scale. In addition, we may also see high selling and administrative costs in the second half of 2021/22 due to the wider distribution coverage, current forex challenges and expectation of relatively high inflation rate.

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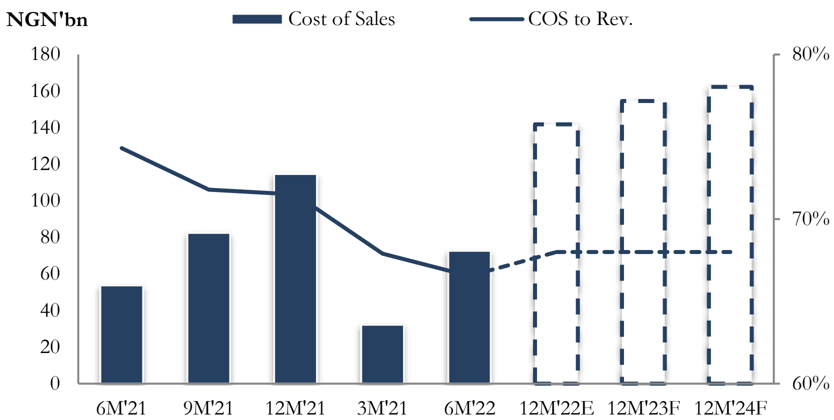
Fig. 4: Cost of Sale – 6M'22 – 12M'24F



Source: NGX, PAC Research

Profit before tax rises significantly by 903% year-on-year, driven by impressive performance across the board: In addition to the outstanding performance from the operating activities during the period, the company also witnessed significant growth in the non-operating activities as net finance cost fell significantly by 54.56% to ₦0.62 billion in H1'21/22 (vs. net finance cost of ₦2.42 billion in H1'20/21), driven by a 79% fall in finance expense on loans and borrowings, and a 58% decline in loss on re-measurement of foreign currency balances.

Consequently, profit before tax improved significantly by 902.76% to ₦12.97 billion in H1'21/22 (vs. ₦1.29 billion reported in H1'20/21). However, the company made a higher provision of ₦4.15 billion for tax in H1'21/22 (vs. ₦1.61 billion in H1'20/21). The upsurge in the tax provision in the first half of 2021/22 is attributed to the higher pre-tax income during the period. Even with higher tax provision in the first half of 2021/22, profit after tax grew significantly to ₦8.82 billion (vs. a loss of ₦0.32 billion reported in H1'20/21) and this resulted in 12-month trailing earnings EPS of ₦4.03 (vs. a loss per share of ₦0.14 in the corresponding period of the previous year).

With the anticipation of improved demand, relatively high prices across various brands and improved cost-minimisation strategy, we may continue to see upward trend in the profitability of the company in the coming quarters.

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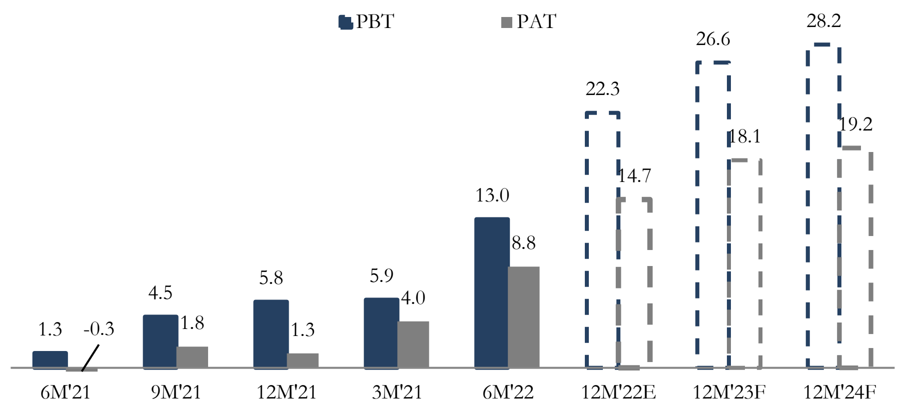
Fig. 5: Profit Before Tax and Profit After Tax – 6M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Guinness Nigeria maintains a robust balance sheet: Expectation of improved dividend payment in FY'21/22: In the second quarter of 2021/22, Guinness Nigeria reported impressive figures in the balance sheet as the total assets grew by 34.45% to ₦199.70 billion during the period (vs. ₦148.53 billion in the second quarter of 2020/21). The increase 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 70.41% to ₦103.76 billion in Q2'21/22 (vs. ₦60.89 billion in Q2'20/21) due to the notable increase in cash and cash equivalent, inventories and trade & other receivables. Also, the non-current assets of the company improved by 9.47% to ₦95.94 billion in Q2'21/22 (vs. ₦87.64 billion in Q2'20/21), mainly driven by more investment in property, plant and equipment during the period.

Meanwhile, the total liabilities of the company accelerated by 53.15% to ₦116.10 billion in Q2'21/22 (vs. ₦75.81 billion in Q2'20/21), due to the significant increase in short-term loans and borrowings, and trade & other payables. During the period, the short-term loans and borrowing increased by 116.58% to ₦25.22 billion in Q2'21/22 (vs. ₦1165 billion in Q2'20/21), as the company continued to take advantage of lower yields on short-term instruments in the market. Specifically, import financing facility and intercompany loans constituted about 63% (₦15.8 billion) and 37% (₦9.4 billion) to the total loans respectively during the period. Impressively, the increase in total assets outweighed the increase in the total liabilities of the company and this reflected on the net assets, which increased by 14.97% to ₦83.61 billion in Q2'21/22 (vs. ₦72.72 billion in Q2'20/21). Consequently, the book value per share of the company grew to ₦38.17 during the period, when compared with ₦33.20 achieved in corresponding period of previous year.

With the impressive performance across the board and expectation of improved demand in coming quarters, we may likely see significant improvement in dividend payment in the full year of 2021/22. **(fig. 6)**

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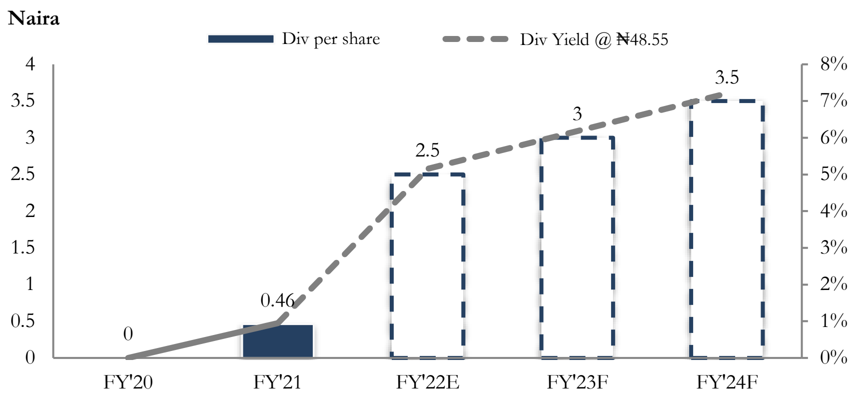
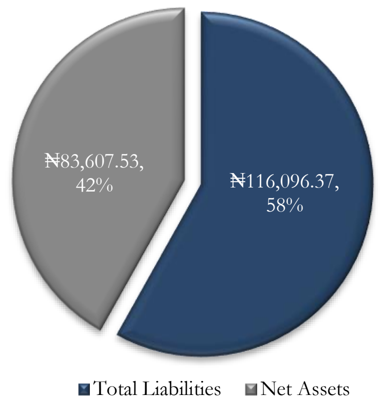
Fig. 6: Dividend Per Share and Dividend Yield - FY'20 -FY'24F



Source: NGX, PAC Research

Fig. 7: Total Liabilities Vs Net Asset in H1'21/22



Source: NGX, PAC Research

Valuation

Our valuation sets the target price of the stock at ₦48.14, representing a marginal decline of 0.84% from the current price of ₦48.55. In arriving at the target price, we employed free cash flow methodology, dividend discount valuation method and residual income valuation method. Consequently, we maintained a **HOLD** recommendation on the stock of the company.

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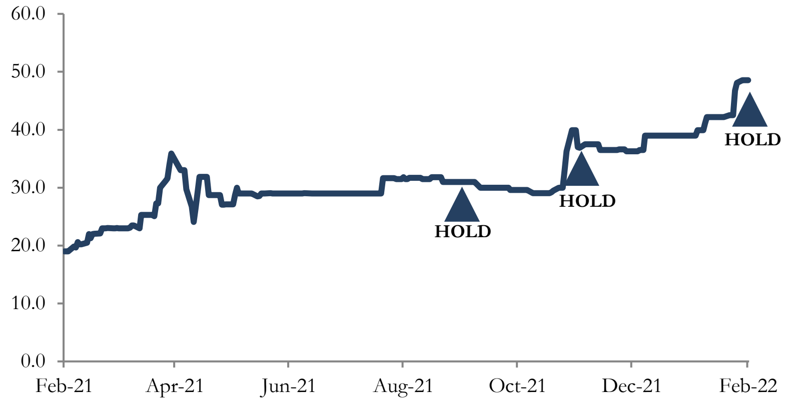
Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company, the improved economic activities and positive outlook from the management.

Fig. 8: 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
Change		*53.69%*	*30.00%*	*9.00%*
Cost of sales	71,046	114,706	141,808	154,571
Change		*61.45%*	*23.63%*	*9.00%*
Gross profit	33,330	45,710	66,733	72,739
Change		*37.14%*	*45.99%*	*9.00%*
Other income	503	1,030	2,920	3,182
Change		*104.75%*	*183.50%*	*9.00%*
Marketing & Distr. Exp.	18,515	26,066	34,409	36,370
Change		*40.78%*	*32.01%*	*5.70%*
Administrative expenses	14,340	10,498	11,261	11,820
Change		*-26.79%*	*7.27%*	*4.96%*
Results from op. activities	-12,832	9,871	23,294	26,982
Change		*-176.93%*	*135.97%*	*15.83%*
Net Finance costs	4,241	4,102	1,043	341
Change		*-3.29%*	*-74.58%*	*-67.30%*
Profit Before Taxation	-17,074	5,770	22,251	26,641
Change		*-133.79%*	*285.67%*	*19.73%*
Taxation	-4,495	4,514	7,565	8,525
Change		*-200.43%*	*67.59%*	*12.68%*
Profit After Taxation	-12,579	1,255	14,686	18,116
Change		*-109.98%*	*1069.87%*	*23.35%*

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 recievables	0	0	0	0
Prepayments	2	0	4	5
Inventories	26,426	21,461	29,196	31,823
Trade and other recievables	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	206,043	224,473
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	116,387	115,542
Net Assets	73,038	74,287	89,656	108,931

Table 7: Profitability Ratio

	2020	2021	2022F	2023F
Gross profit margin	31.93%	28.49%	32.00%	32.00%
Net Profit Margin	-12.05%	0.78%	7.04%	7.97%
operating profit margin	-12.29%	6.15%	11.17%	11.87%
Return on Equity	-17.22%	1.69%	16.38%	16.63%
Return on Assets	-8.73%	0.74%	7.13%	8.07%
Return on Assets	-1.80%	11.51%	18.85%	19.55%
ROCE	-15.38%	11.40%	22.82%	22.03%

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	7.14	7.14
Sales to total assets (x)	0.72	0.95	1.01	1.01
Sales/EBITDA	-55.63	8.69	5.31	5.12
Sales to total fixed assets	1.17	1.70	2.08	2.08
Equity multiplier	1.97	2.28	2.30	2.06

Table 9: Liquidity Ratios

	2020	2021	2022F	2023F
Quick ratio	*0.45*	*0.64*	*0.73*	*0.81*
Current ratio	*0.89*	*0.90*	*1.01*	*1.12*
Cash ratio	*0.09*	*0.43*	*0.54*	*0.60*
Interest Coverage	*3.76*	*1.25*	*8.89*	*9.77*
Op. Cash Flow Ratio	*-0.21*	*0.12*	*0.22*	*0.26*
Debt/net income	*-1.84*	*12.74*	*1.70*	*1.51*
Debt/operating profit	*-1.80*	*1.62*	*1.07*	*1.01*
Debt to asset	*0.16*	*0.09*	*0.12*	*0.12*
Debt to equity	*0.32*	*0.22*	*0.28*	*0.25*
Total liabilities/equity	*0.97*	*1.28*	*1.30*	*1.06*
Total liaB./ Total Assets	*0.49*	*0.56*	*0.56*	*0.51*
Inventory turnover	*1.48*	*2.31*	*2.61*	*2.53*
Inventory days	*124.79*	*71.11*	*61.46*	*72.04*
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	6.70	8.27
DiV per share	0.00	0.46	2.50	3.00
NAVPS	33.34	33.91	40.93	49.73
Earnings yield	-11.8%	1.18%	13.81%	17.04%
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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