

Rebound in Sales after the Easing of Lockdown of Economic Activities

INVESTMENT SUMMARY

The breweries segment of the consumer goods sector suffered during the lockdown of economic activities and restriction of movement, which was used by the government to contain the widespread of Coronavirus, especially in the second quarter of 2020. The closure of hotels, bars, airports, restaurants, event centres, tourist centres, parks and casino adversely impacted the revenue of Nigerian Breweries in the second quarter of 2020. However, the Federal Government of Nigeria eased the lockdown in various States, and this improved the sales of Nigerian Breweries as revenue remained almost flat at ₦234.04 billion in 9M'20 (vs. ₦235.68 billion in 9M'19). However, the cost of sales rose by 3.29% to ₦144.09 billion in 9M'20 (vs. ₦139.51 billion in 9M'19), mainly as a result of expensive raw materials and consumables during the period. Impressively, the marketing and distribution expenses fell by 9.27% to ₦52.15 billion in 9M'20 (9M'19: ₦57.48 billion), due to lower distribution cost & advertising expenses. Meanwhile, the administrative expenses rose by 11.17% to ₦15.89 billion in 9M'20 (9M'19: ₦14.29 billion). Consequently, operating profit fell by 10.66% to ₦22.49 billion in 9M'20 (9M'19: ₦25.17 billion).

The additional borrowing via commercial papers during the period largely affected finance costs as it rose by 43.39% to ₦11.73 billion (vs. ₦8.18 billion in 9M'19). With the setback in operating and non-operating activities, profit before tax fell by 36.26% to ₦10.98 billion in 9M'20 (vs. ₦17.22 billion in 9M'19). The company made a provision of ₦4.04 billion for tax in 9M'20 (9M'19: ₦4.95 billion) and as a result, profit after tax declined by 43.47% to ₦6.94 billion in 9M'20 (vs. ₦12.28 billion in 9M'19). However, the company approved an interim dividend payment of ₦0.25 per share in 9M'20 (9M'19: ₦0.50). Based on the recent figures, we maintain a **HOLD** recommendation as present forward estimates places the company share price at ₦54.44.

Fig. 1: Quarterly results highlights

	3Q2020	2Q2020	3Q2019	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	82,229	68,652	65,488	+19.78%	+25.56%
Operating profit (₦mn)	7,443	4,132	710	+80.13%	+948.3%
Net profit (₦mn)	1,350	84	-1,043	+1507%	-229.4%

Source: Bloomberg, PAC Research

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Price:

- Current	₦55.00
- Target	₦54.44

Recommendation: **HOLD**

* As at Friday December 11, 2020

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-6.78%/+7.32%
52-week range	₦22.00 - ₦63.25
30-day Average vol.	1,500,615
Shares Outstanding ('mn)	7,996.90
Market Cap. (₦bn)	439.83
EPS, ₦- 12months trailing	1.35
DPS, ₦- FY2019	2.01

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

Fig. 3: Key ratios

	9M'20	9M'19
Gross profit margin	38.43%	40.81%
Net profit margin	2.97%	5.21%
Equity multiplier	2.88x	2.32x
Asset turnover	0.50x	0.62x

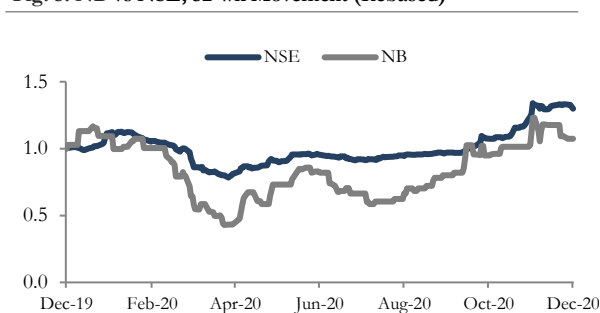
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2018	FY2019	FY2020E	FY2021F
P/E	22.63x	27.31x	42.14x	29.60x
P/B	2.64x	2.62x	2.63x	2.45x
Payout Ratio	99.97x	99.80x	95.77x	96.86x
EV/EBITDA	6.75x	7.20x	8.20x	7.47x
P/S	1.36	1.36	1.38	1.28
ROE	11.65%	9.60%	6.23%	8.26%
ROA	5.01%	4.21%	2.21%	2.97%
Div. Yield	4.42%	3.65%	2.27%	3.27%

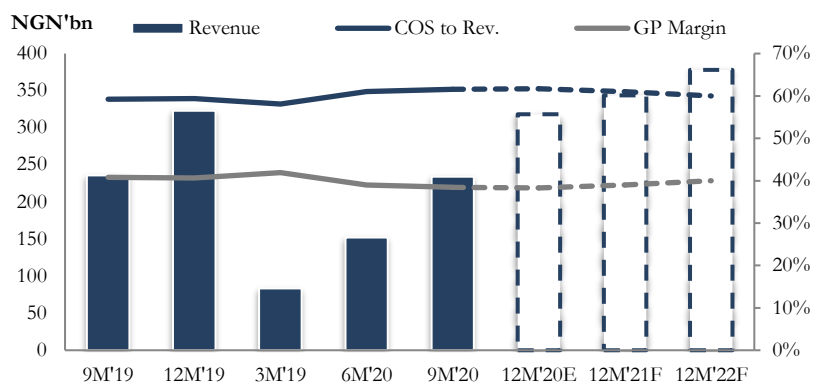
Source: NSE, PAC Research

Fig. 5: NB vs NSE, 52-wk Movement (Rebased)



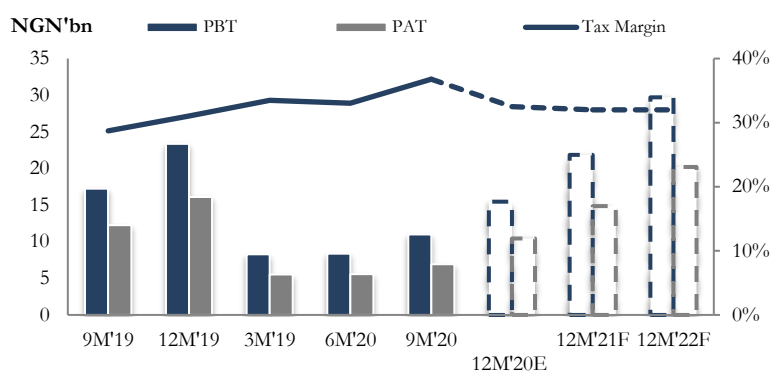
Source: Bloomberg, PAC Research

Fig. 6: Revenue, COS to Rev. and GP Margin – 9M'19 – 12M'22F



Source: NSE, PAC Research

Fig. 7: PBT, PAT and Tax Margin – 9M'19 – 12M'22F



Source: NSE, PAC Research

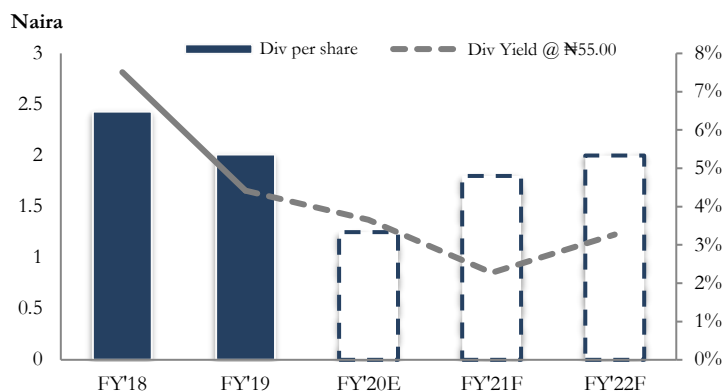
Balance sheet remain strong and healthy: Expectation of lower dividend

in FY'20: Nigerian Breweries Plc recoded impressive figure for total asset as it increased by 22.47% to ₦467.23 billion in Q3'20 (vs. ₦381.51 billion in Q3'19). The increase in total assets of the company can be mainly attributed to improved right of use asset, higher cash & cash equivalents and investment in property, plant & equipment during the period. However, due to significant increase in loans and borrowings, bank overdraft and commercial papers (as a result of issuance of more commercial papers during the period), total liabilities increased by 40.36% to ₦304.94 billion Q3'20 (vs. ₦217.26 billion in Q3'19). Consequently, net assets fell by 1.19% to ₦162.29 billion in the third quarter of 2020, from ₦164.25 billion recorded in the third quarter of 2019. This translated to a lower Net Assets per Shares (NAPS) of ₦20.29 in Q3'20 (vs. ₦20.54 realised in Q3'19).

With our projection, Nigerian Breweries may perform below expectation in full year 2020 due to the negative impacts of COVID-19. However, we assume that the strong balance sheet will help the company in minimising the negative effects of the COVID-19 pandemic. As a result, Nigerian Breweries Plc may likely reward the shareholders with lower final dividend payment in full year of 2020

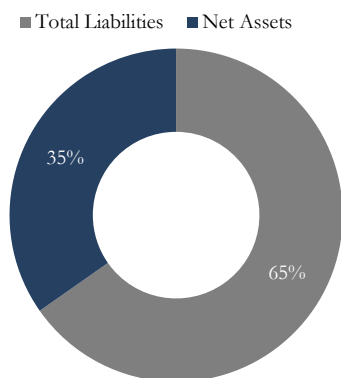
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Fig. 8: Dividend Per Share and Dividend Yield - FY'18 - FY'22F



Source: NSE, PAC Research

Fig. 9: Total Liabilities Vs Net Asset in 9M'20



Source: NSE, PAC Research

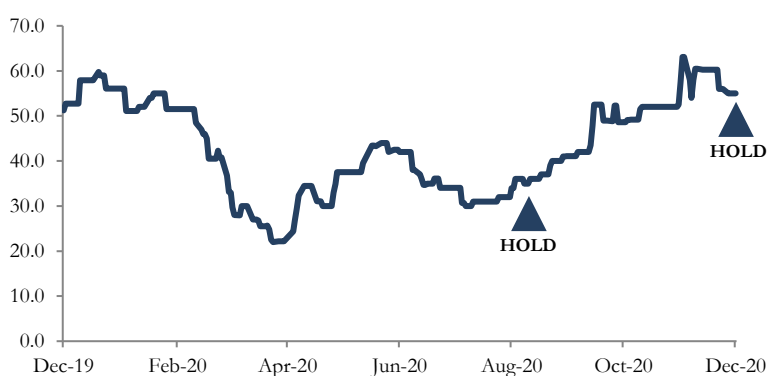
Valuation

Our valuation puts the target price of the stock at ₦54.44, representing a decline of 1.02% from the current price of ₦55.00. In arriving at the target price, we employed discounted cashflow valuation methodology. Consequently, we maintained 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, increased competition within the industry and impacts of COVID-19 on the Nigerian economy.

Our valuation puts the target price of the stock at ₦54.44, representing a decline of 1.02% from the current price of ₦55.00.

Fig. 10: Share Price History (Naira)



Source: NSE, PAC Research

Fig. 11: Statement of Profit or Loss, N'mn

	2018	2019	2020E	2021F
Revenue	324,389	323,007	318,162	343,615
Change	-5.85%	-0.43%	-1.50%	8.00%
Cost of sales	197,485	191,757	196,306	209,605
Change	-1.76%	-2.90%	2.37%	6.77%
Gross profit	126,904	131,251	121,856	134,010
Change	-11.60%	3.43%	-7.16%	9.97%
Other income	885	1,005	795	1,203
Change	-60.09%	13.54%	-20.88%	51.20%
Marketing & Distr. Exp.	70,052	77,695	70,632	75,595
Change	4.71%	10.91%	-9.09%	7.03%
Administrative expenses	20,785	19,355	20,999	22,679
Change	-4.43%	-6.88%	8.49%	8.00%
Results from op. activities	36,952	35,206	31,021	36,939
Change	-35.31%	-4.72%	-11.89%	19.08%
Net Finance costs	7,530	11,854	15,558	15,085
Change	-28.23%	57.43%	31.25%	-3.04%
Profit Before Taxation	29,422	23,352	15,463	21,854
Change	-36.90%	-20.63%	-33.78%	41.33%
Taxation	9,984	7,246	5,025	6,993
Change	-26.49%	-27.43%	-30.64%	39.16%
Profit After Taxation	19,438	16,106	10,437	14,861
Change	-41.18%	-17.14%	-35.20%	42.38%

Fig. 12: Statement of Financial Position, N'mn

	2018	2019	2020E	2021F
PPE	203,493	201,907	200,442	216,478
Intangible assets	97,136	96,466	101,812	109,957
Investments	150	150	159	172
Other receivables	662	652	700	756
Prepayments	538	0	0	0
Inventories	32,507	38,520	42,952	46,388
Trade and other rec.	35,153	21,307	23,862	25,771
Cash and bank Bal.	14,793	6,361	52,497	48,106
Total Assets	388,263	382,778	472,121	500,201
current tax liabilities	14,579	12,799	17,499	18,899
Dividend payable	7,932	5,742	12,726	10,308
Trade and Other pa.	114,152	102,783	109,766	113,393
Loans and Borrowings	31,412	38,893	39,770	42,952
Employee benefits	16,057	13,434	13,681	14,775
Deferred tax liab.	24,554	23,171	23,862	25,771
Total liabilities	221,434	215,028	304,609	320,318
Net Assets	166,828	167,750	167,512	179,883

Fig. 13: Profitability Ratio

	2018	2019	2020E	2021F
Gross profit margin	39.12%	40.63%	38.30%	39.00%
Net Profit Margin	5.99%	4.99%	3.28%	4.32%
operating profit margin	11.39%	10.90%	9.75%	10.75%
Return on Equity	11.65%	9.60%	6.23%	8.26%
Return on Assets	5.01%	4.21%	2.21%	2.97%
Return on Assets	21.34%	21.03%	19.65%	20.55%
ROCE	15.47%	14.47%	12.67%	14.02%

Fig. 14: Asset Utilisation

	2018	2019	2020E	2021F
cash/.sales	0.05	0.02	0.17	0.14
Sales to inventory (x)	9.98	8.39	7.41	7.41
Sales to total assets (x)	0.84	0.84	0.67	0.69
sales/EBITDA	4.69	4.75	5.09	4.87
Sales to total fixed assets	1.59	1.60	1.59	1.59
Equity multiplier	2.33	2.28	2.82	2.78

Fig. 15: Liquidity Ratios

	2018	2019	2020E	2021F
Quick ratio	0.36	0.24	0.37	0.35
Current ratio	0.58	0.52	0.55	0.54
Cash ratio	0.10	0.05	0.23	0.20
Interest Coverage	3.73	1.93	0.97	1.41
Op. Cash Flow Ratio	0.25	0.25	0.14	0.16
Debt/net income	2.19	3.46	12.04	9.13
Debt/operating profit	1.15	1.58	4.05	3.67
Debt to asset	0.11	0.15	0.27	0.27
Debt to equity	0.26	0.33	0.75	0.75
Total liabilities/equity	1.33	1.28	1.82	1.78
Total liab./ Total Assets	0.57	0.56	0.65	0.64
Inventory turnover	2.62	2.70	2.41	2.35
Inventory days	68.00	69.81	76.35	77.79
Account rec. days	39.55	24.08	27.38	27.38

Fig. 16: Shareholders' Investment Ratios

	2018	2019	2020E	2021F
Earnings per share	2.43	2.01	1.31	1.86
DiV per share	2.43	2.01	1.25	1.80
NAVPS	20.86	20.98	20.95	22.49
Earnings yield	4.42%	3.66%	2.37%	3.38%
FCFPS	9.10	9.19	9.28	9.38

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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