

## Slow Profit Growth as High Operating Expenses in Q3'21 Weighs on Improved Revenue

### INVESTMENT SUMMARY

Nigerian Breweries maintained a strong recovery in the nine-month to September 2021 unaudited results, as revenue grew significantly by 32.15% to ₦309.28 billion (vs. ₦234.04 billion in nine-month to September 2020). The impressive growth in the top line may be attributed to improved demand and higher prices during the period. However, the cost of sales accelerated by 37.93% to ₦198.744 billion in 9M'21 (vs. ₦114.09 billion in 9M'20). The increase in the cost of sales may be ascribed to higher production volumes, FX scarcity and high inflation rate during the period. In addition, the marketing, distribution and administrative expenses rose by 27.41% to ₦86.69 billion in 9M'21 (9M'20: ₦68.04 billion), as a result of 61.75% growth in advertising and sales expenses, 29.19% increase in repairs and maintenance costs, among others. Despite the significant increase in the operating expenses, the EBITDA of the company grew by 7.38% to ₦54.53 billion in 9M'21 (9M'20: ₦50.78 billion).

The company continued to service the additional borrowing (via commercial papers) during the period. This resulted in higher net finance cost which increased by 4.23% to ₦12.00 billion in 9M'21 (vs. ₦11.51 billion in 9M'20). Despite the higher operating expenses and finance cost, profit before tax rose by 16.03% to ₦12.74 billion in 9M'21 (9M'20: ₦10.98 billion). The company made a higher tax provision of ₦4.52 billion for tax in 9M'21 (9M'20: ₦4.04 billion). Albeit the higher tax provision, profit after tax grew by 18.40% to ₦8.22 billion in 9M'21 (vs. ₦6.94 billion in 9M'20).

With the festive season in the fourth quarter and acceptance of new brands (Desperados, Star Radler Red Fruits and Amstel Malta Ultra) in the market, we expect improved revenue in the fourth quarter of 2021. However, high operating expenses may be a major threat to the profitability of the company in the fourth quarter of 2021. Based on the recent figures and projection, we maintain a **HOLD** recommendation as present forward estimates places the company share price at ₦51.32 (Previous TP: ₦54.39).

Fig. 1: Quarterly results highlights

	3Q2021	2Q2021	3Q2020	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	100,024	103,581	82,229	-3.43%	+21.64%
Operating profit (₦mn)	4,819	5,427	7,444	-11.20%	-35.26%
Net profit (₦mn)	497	65	1,350	+664.6%	-63.19%

Source: Bloomberg, PAC Research

November 19, 2021

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Price:

- Current	₦52.50
- Target	₦51.32
<b>Recommendation:</b>	<b>HOLD</b>

\* As at Thursday November 18, 2021

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-6.25%/-2.78%
52-week range	₦46.50 - ₦63.00
30-day Average vol.	2,204,372
Shares Outstanding ('mn)	7,996.90
Market Cap. (₦bn)	419.84
EPS, ₦- 12months trailing	1.08
DPS, ₦- FY2020	0.94

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

Fig. 3: Key ratios

	9M'21	9M'20
Gross profit margin	35.74%	38.43%
Net profit margin	2.66%	2.97%
Equity multiplier	2.74x	2.88x
Asset turnover	0.67x	0.50x

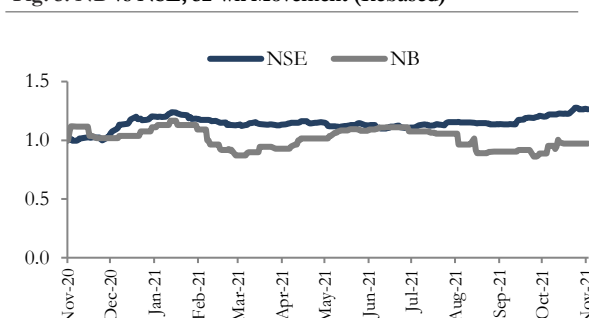
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2019	FY2020	FY2021E	FY2022F
P/E	26.07x	55.85x	35.72x	21.99x
P/B	2.50x	2.60x	2.50x	2.27x
Payout Ratio	99.80x	100.00x	81.65x	71.21x
EV/EBITDA	6.90x	7.08x	6.39x	5.50x
P/S Ratio	1.30	1.25	1.01	0.96
ROE	9.60%	4.57%	7.00%	10.32%
ROA	4.21%	1.65%	2.50%	3.82%
Div. Yield	3.83%	1.79%	2.29%	3.24%

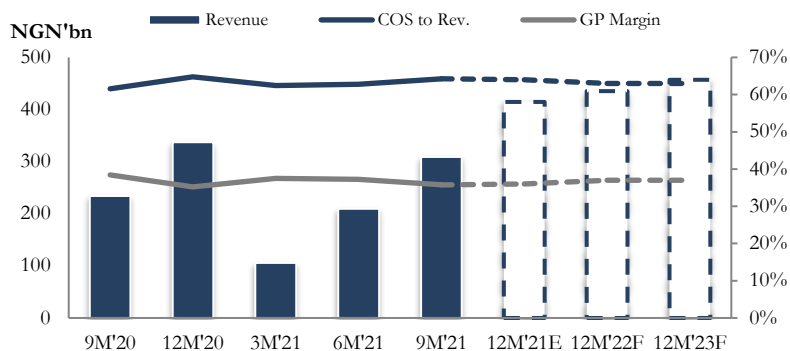
Source: NSE, PAC Research

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



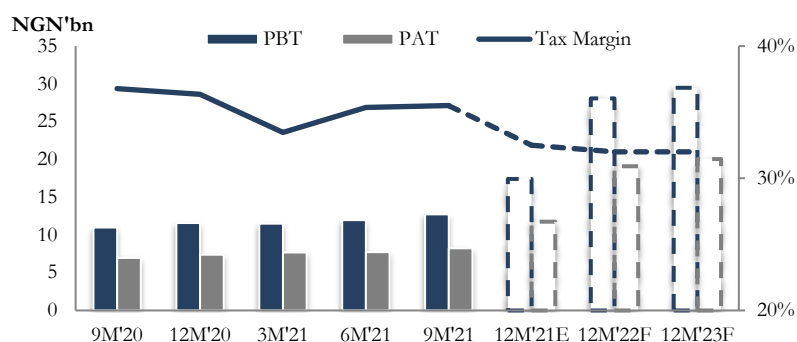
Source: Bloomberg, PAC Research

Fig. 6: Revenue, COS to Rev. and GP Margin – 9M'20 – 12M'23F



Source: NSE, PAC Research

Fig. 7: PBT, PAT and Tax Margin – 9M'20 – 12M'23F



Source: NSE, PAC Research

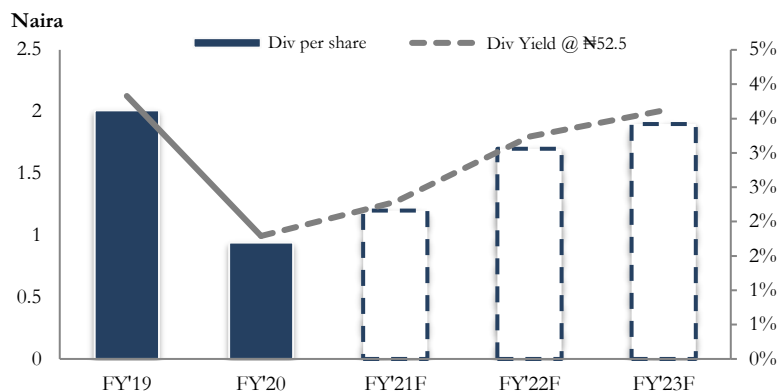
### Nigerian Breweries maintains solid balance sheet in the third quarter of 2021; Rewards shareholders with interim dividend of 40 kobo per share:

Nigerian Breweries Plc maintained a strong balance sheet in the third quarter of 2021, despite a slight fall in the total assets during the period. The total asset of the company fell by 1.83% to ₦458.68 billion in Q3'21 (vs. ₦467.23 billion in Q3'20), mainly driven by significant fall in trade & other receivables and cash & cash equivalents. Meanwhile, the total liabilities of the company declined by 4.50% to ₦291.21 billion Q3'21 (vs. ₦304.94 billion in Q3'20) due to decline in long-term loans and borrowings during the period. Long-term loans and borrowings fell by 15.58% to ₦34.86 billion Q3'21 (vs. ₦41.30 billion in Q3'20) as the company continued to reduce its leverage. The reduction in the total liabilities outweighed the setback in the total assets and as a result, the net assets of the company rose by 3.19% to ₦167.47 billion in the third quarter of 2021, from ₦162.29 billion recorded in the third quarter of 2020. This resulted in a higher net assets per shares of ₦20.94 in Q3'21 (Q3'20: ₦20.29).

With the improved operating performance and robust balance sheet, the company rewarded the shareholders with an interim dividend of 40 kobo per share in Q3'21 (Q3'20: 25 kobo). We may also see improved final dividend payment in the full year of 2021.

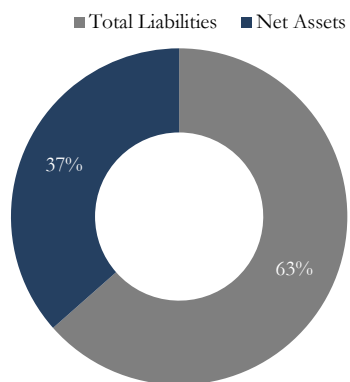
*With the improved operating performance and robust balance sheet, the company rewarded the shareholders with an interim dividend of 40 kobo per share...*

**Fig. 8: Dividend Per Share and Dividend Yield - FY'19 - FY'23F**



Source: NSE, PAC Research

**Fig. 9: Total Liabilities Vs Net Asset in 9M'21**



Source: NSE, PAC Research

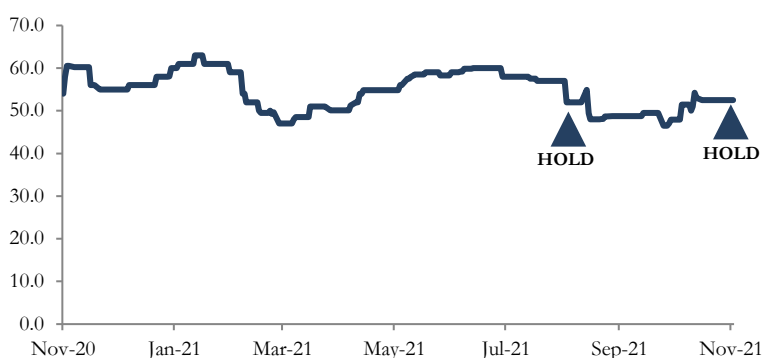
## Valuation

Our valuation puts the target price of the stock at ₦51.32, representing a decrease of 2.25% from the current price of ₦52.50. In arriving at the target price, we employed discounted cashflow valuation methodology. Consequently, we maintain 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.

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**Fig. 10: Share Price History (Naira)**



Source: NSE, PAC Research

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

	2019	2020	2021E	2022F
Revenue	323,007	337,046	414,567	435,295
Change	-6.26%	4.35%	23.00%	5.00%
Cost of sales	191,757	218,355	265,323	274,236
Change	-4.61%	13.87%	21.51%	3.36%
Gross profit	131,251	118,691	149,244	161,059
Change	-8.57%	-9.57%	25.74%	7.92%
Other income	1,005	828	1,036	1,524
Change	-54.69%	-17.63%	25.16%	47.00%
Marketing & Distr. Exp.	77,695	70,702	91,536	91,412
Change	16.14%	-9.00%	29.47%	-0.14%
Administrative expenses	19,355	19,212	24,045	25,247
Change	-11.00%	-0.74%	25.15%	5.00%
Results from op. activities	35,206	29,605	34,699	45,924
Change	-38.37%	-15.91%	17.21%	32.35%
Net Finance costs	11,854	18,028	17,287	17,847
Change	12.99%	52.09%	-4.11%	3.24%
Profit Before Taxation	23,352	11,577	17,412	28,077
Change	-49.92%	-50.43%	50.41%	61.25%
Taxation	7,246	4,208	5,659	8,984
Change	-46.65%	-41.92%	34.47%	58.77%
Profit After Taxation	16,106	7,368	11,753	19,092
Change	-51.27%	-54.25%	59.51%	62.44%

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

	2019	2020	2021E	2022F
PPE	201,907	213,412	221,793	230,706
Intangible assets	96,466	95,272	95,350	102,294
Investments	150	150	153	154
Other receivables	652	911	1,119	1,175
Prepayments	0	0	0	0
Inventories	38,520	36,087	47,675	50,059
Trade and other rec.	21,307	11,417	24,874	26,118
Cash and bank Bal.	6,361	30,370	18,656	19,588
Total Assets	382,778	445,857	470,645	499,307
current tax liabilities	12,799	11,713	12,437	13,059
Dividend payable	5,742	7,707	9,535	10,012
Trade and Other pa.	102,783	139,201	160,852	165,412
Loans and Borrowings	50,894	39,637	35,238	37,000
Employee benefits	13,434	16,720	18,656	19,588
Deferred tax liab.	23,171	17,854	16,583	17,412
Total liabilities	215,028	284,678	302,800	314,370
Net Assets	167,750	161,179	167,846	184,937

Fig. 13: Profitability Ratio

	2019	2020	2021E	2022F
Gross profit margin	40.63%	35.22%	38.00%	37.00%
Net Profit Margin	4.99%	2.19%	2.84%	4.39%
operating profit margin	10.90%	8.78%	8.37%	10.55%
Return on Equity	9.60%	4.57%	7.00%	10.32%
Return on Assets	4.21%	1.65%	2.50%	3.82%
Return on Assets	21.03%	20.14%	18.27%	20.35%
ROCE	13.79%	12.58%	14.56%	17.74%

Fig. 14: Asset Utilisation

	2019	2020	2021E	2022F
cash/sales	0.02	0.09	0.05	0.05
Sales to inventory (x)	8.39	9.34	8.70	8.70
Sales to total assets (x)	0.84	0.76	0.88	0.87
sales/EBITDA	4.75	4.97	5.47	4.91
Sales to total fixed assets	1.60	1.58	1.87	1.89
Equity multiplier	2.28	2.77	2.80	2.70

Fig. 15: Liquidity Ratios

	2019	2020	2021E	2022F
Quick ratio	0.27	0.27	0.27	0.28
Current ratio	0.57	0.44	0.48	0.49
Cash ratio	0.05	0.14	0.08	0.08
Interest Coverage	1.93	0.63	1.00	1.54
Op. Cash Flow Ratio	0.28	0.14	0.15	0.19
Debt/net income	3.46	12.41	7.05	4.56
Debt/operating profit	1.58	3.09	2.39	1.90
Debt to asset	0.15	0.21	0.18	0.17
Debt to equity	0.33	0.57	0.49	0.47
Total liabilities/equity	1.28	1.77	1.80	1.70
Total liab./ Total Assets	0.56	0.64	0.64	0.63
Inventory turnover	2.70	2.93	3.08	2.81
Inventory days	69.81	66.34	59.69	65.04
Account rec. days	24.08	12.36	21.90	21.90

Fig. 16: Shareholders' Investment Ratios

	2019	2020	2021E	2022F
Earnings per share	2.01	0.94	1.47	2.39
DiV per share	2.01	0.94	1.20	1.70
NAVPS	20.98	20.16	20.99	23.13
Earnings yield	3.84%	1.79%	2.80%	4.55%
FCFPS	4.86	10.41	4.91	4.96

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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