

Revenue Grows by 30% in FY-2021, Driven by Improved Production Volumes and Higher Prices

INVESTMENT SUMMARY

In line with our expectation, Nigerian Breweries recorded impressive figures in the full year 2021 audited results as revenue accelerated by 29.74% to ₦437.29 billion (vs. ₦337.05 billion in the full year of 2020), driven by increased demand, higher prices, and improved mix of products during the period. However, the improved production volumes, high inflation and FX scarcity reflected on the cost of sales as it increased significantly by 26.80% to ₦276.87 billion in FY'21 (vs. ₦218.36 billion in FY'20). Although, the cost of sales increased by 26.80%, the cost-to-sales ratio declined to 63.32% in FY'21 (FY'20: 64.78%), and this showed the effort of the management in upholding cost-minimization strategy. During the period, the marketing, distribution and administrative expenses grew by 37.40% to ₦123.55 billion in FY'21 (FY'20: ₦89.91 billion), driven mainly by the 58.80% increase in advertising and sales expenses and 18.70% growth in repairs and maintenance costs. Notwithstanding the significant increase in the operating expenses during the period, the EBITDA of the company grew by 21.98% to ₦82.79 billion in FY'21 (FY'20: ₦67.87 billion).

The company recorded a net loss of ₦7.04 billion on foreign exchange transaction in FY'21 (FY'20: net loss of ₦4.77 billion). This was mitigated by the development in finance cost, which declined by 18.06% to ₦11.07 billion in FY'21 (vs. ₦13.50 billion in FY'20), driven by a significant decline in total loans and borrowings during the period. As a result, profit before tax rose significantly by 104.73% to ₦23.70 billion in FY'21 (FY'20: ₦11.58 billion). However, the company made a higher provision of ₦11.03 billion for tax in FY'21 (FY'20: ₦4.21 billion), impacted by the derecognition of leased trucks. Nevertheless, profit after tax grew by 71.98% to ₦12.67 billion in FY'21 (vs. ₦7.37 billion in FY'20), translating to earnings per share of ₦1.60 (FY'20: ₦0.94). With the recent performance and positive outlook, we upgrade to a **BUY** recommendation as present forward estimates places the company share price at ₦55.19 (Previous TP: ₦51.32).

Fig. 1: Quarterly results highlights

	4Q2021	3Q2021	4Q2020	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	128,004	100,024	103,007	+27.97%	+24.27%
Operating profit (₦mn)	16,758	4,819	7,115	+247.75%	+135.5%
Net profit (₦mn)	4,455	497	429	+796.4%	+938.5%

Source: Bloomberg, PAC Research

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Price:

- Current	₦48.00
- Target	₦55.19
Recommendation:	BUY

* As at Friday March 4, 2022

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-4.00%/-7.69%
52-week range	₦45.45 - ₦60.00
30-day Average vol.	5,270,622
Shares Outstanding ('mn)	7,996.90
Market Cap. (₦bn)	383.85
EPS (₦) – 12months trailing	1.60
DPS (₦) – FY2021	1.60

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

Fig. 3: Key ratios

	FY'21	FY'20
Gross profit margin	36.68%	35.22%
Net profit margin	2.90%	2.19%
Equity multiplier	2.82x	2.77x
Asset turnover	0.90x	0.76x

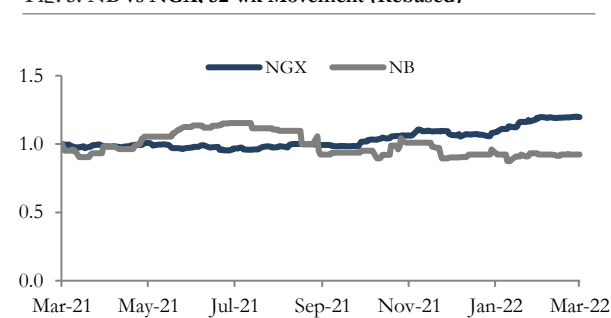
Source: NGX, PAC Research

Fig. 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E	51.06x	30.29x	18.90x	16.38x
P/B	2.38x	2.23x	2.14x	2.04x
Payout Ratio	100x	100.00x	78.76x	81.90x
EV/EBITDA	6.55x	4.81x	4.64x	4.32x
P/S Ratio	1.14	0.88	0.81	0.77
ROE	4.57%	7.37%	11.32%	12.44%
ROA	1.65%	2.61%	3.87%	4.25%
Div. Yield	1.96%	3.33%	4.17%	5.00%

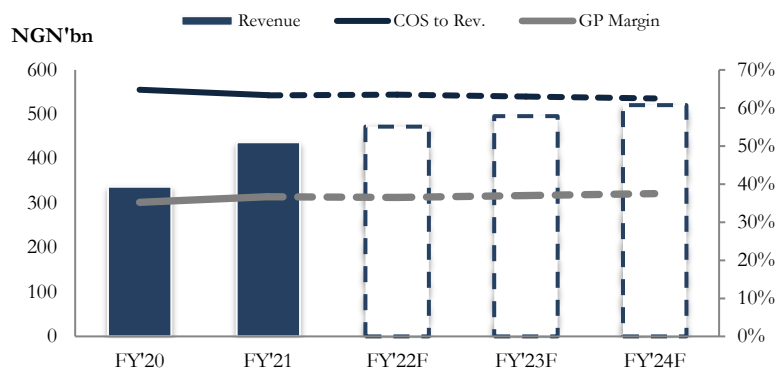
Source: NGX, PAC Research

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



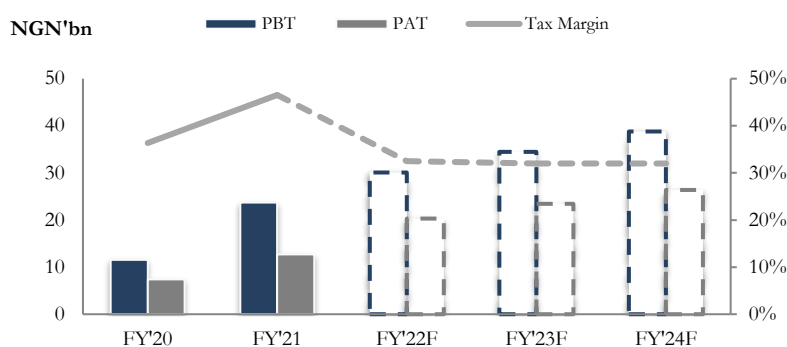
Source: Bloomberg, PAC Research

Fig. 6: Revenue, COS to Rev. and GP Margin – FY'20 – FY'24F



Source: NGX, PAC Research

Fig. 7: PBT, PAT and Tax Margin – FY'20 – FY'24F



Source: NGX, PAC Research

Balance Sheet remains solid; Nigerian Breweries rewards shareholders with total dividend of ₦1.60 per share in FY'21:

In the full year of 2021, Nigerian Breweries maintained a strong financial position as the total asset of the company grew by 8.90% to ₦485.52 billion (vs. ₦445.86 billion in full year of 2020), mainly driven by additional investment of ₦43.81 billion in property plant & equipment, an increase of ₦26.10 billion in inventory and ₦15.08 billion rise in trade & other receivables. However, the total liabilities of the company increased by 10.16% to ₦313.61 billion FY'21 (vs. ₦284.68 billion in FY'20), despite the significant fall in total loans and borrowings during the period. The increase in the total liabilities of the company was attributed to the significant rise in trade and other payables which grew by 62.66% to ₦226.42 billion in FY'21 (vs. ₦139.20 billion in FY'20). However, the total loans and borrowings fell drastically by 65.69% to ₦31.37 billion FY'21 (vs. ₦91.45 billion in FY'20), driven by significant repayment of loans (bank and government), commercial paper, and lease derecognition during the period.

The improvement in total assets mitigated the setback recorded in total liabilities during the period. Consequently, the net assets of the company grew by 6.66% to ₦171.91 billion in FY'21 (₦161.18 billion in FY'20) and this resulted in a higher net assets per shares of ₦21.50 in FY'21 (FY'20: ₦20.16).

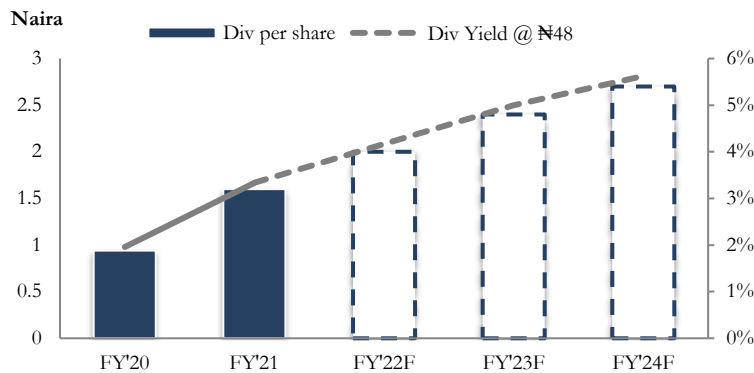
... the total loans and borrowings fell drastically by 65.69% to ₦31.37 billion FY'21 (vs. ₦91.45 billion in FY'20), driven by significant repayment of loans...

Impressively, the company rewarded the shareholders with a final dividend of ₦1.20 dividend in FY'21, having paid an interim dividend of ₦0.40 per share from the 9M'21 results. The total dividend of ₦1.60 per share in FY'21 (FY'20: ₦0.94) showed that the company achieved 100% pay-out ratio during the period.

With improved economic activities, high prices across various brands and acceptance of new brands (Desperados, Star Radler Red Fruits and Amstel Malta Ultra) in the market, we may continue to see significant growth in the operating activities of the company. This is expected to translate to robust balance sheet in the coming quarters. Hence, we anticipate improve dividend payment in the full year of 2022.

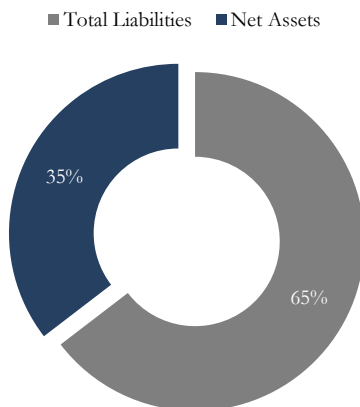
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Fig. 8: Dividend Per Share and Dividend Yield - FY'20 - FY'24F



Source: NGX, PAC Research

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



Source: NGX, PAC Research

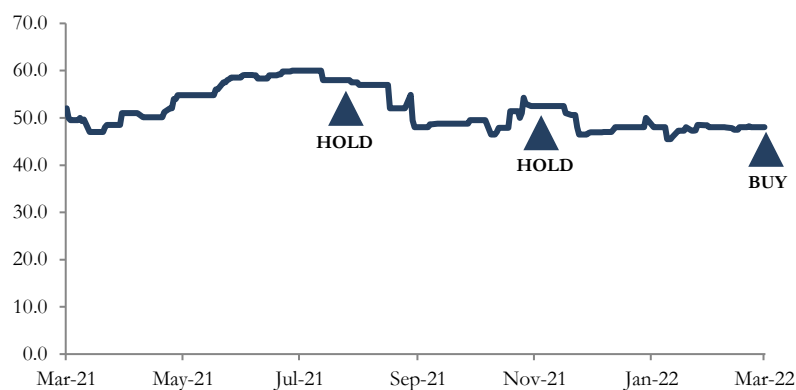
Valuation

Our valuation puts the target price of the stock at ₦55.19, representing an increase of 14.98% from the current price of ₦48.00. In arriving at the target price, we employed discounted cashflow valuation methodology. Consequently, we upgrade a **BUY** recommendation.

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, improved economic activities in the country and positive outlook from the management.

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Fig. 10: Share Price History (Naira)



Source: NGX, PAC Research

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

	2020	2021	2021E	2022F
Revenue	337,046	437,285	472,268	495,881
Change	4.35%	29.74%	8.00%	5.00%
Cost of sales	218,355	276,872	299,890	312,405
Change	13.87%	26.80%	8.31%	4.17%
Gross profit	118,691	160,413	172,378	183,476
Change	-9.57%	35.15%	7.46%	6.44%
Other income	828	4,627	1,417	1,736
Change	-17.63%	458.73%	-69.38%	22.50%
Marketing & Distr. Exp.	70,702	97,304	106,260	111,573
Change	-9.00%	37.63%	9.20%	5.00%
Administrative expenses	19,212	26,241	28,336	29,753
Change	-0.74%	36.59%	7.98%	5.00%
Results from op. activities	29,605	41,494	39,198	43,886
Change	-15.91%	40.16%	-5.53%	11.96%
Net Finance costs	18,028	17,793	9,115	9,422
Change	52.09%	-1.31%	-48.77%	3.37%
Profit Before Taxation	11,577	23,701	30,083	34,464
Change	-50.43%	104.73%	26.93%	14.56%
Taxation	4,208	11,029	9,777	11,028
Change	-41.92%	162.09%	-11.35%	12.80%
Profit After Taxation	7,368	12,672	20,306	23,435
Change	-54.25%	71.98%	60.25%	15.41%

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

	2020	2021	2022F	2023F
PPE	213,412	257,217	278,638	292,570
Intangible assets	95,272	94,334	99,176	104,135
Investments	150	150	142	149
Other receivables	911	1,134	1,275	1,339
Prepayments	0	0	0	0
Inventories	36,087	62,192	66,118	69,423
Trade and other rec.	11,417	26,501	28,336	29,753
Cash and bank Bal.	30,370	16,730	18,891	19,835
Total Assets	445,857	485,522	524,784	551,023
current tax liabilities	11,713	10,624	11,334	11,901
Dividend payable	7,707	10,438	11,334	11,901
Trade and Other pa.	139,201	226,418	245,579	257,858
Loans and Borrowings	39,637	6,831	7,556	7,934
Employee benefits	16,720	10,964	18,891	19,835
Deferred tax liab.	17,854	23,282	23,613	24,794
Total liabilities	284,678	313,610	345,322	362,588
Net Assets	161,179	171,912	179,462	188,435

Fig. 13: Profitability Ratio

	2020	2021	2022F	2023F
Gross profit margin	35.22%	36.68%	36.50%	37.00%
Net Profit Margin	2.19%	2.90%	4.30%	4.73%
operating profit margin	8.78%	9.49%	8.30%	8.85%
Return on Equity	4.57%	7.37%	11.32%	12.44%
Return on Assets	1.65%	2.61%	3.87%	4.25%
Return on Assets	20.14%	18.93%	18.20%	18.65%
ROCE	12.58%	19.48%	17.08%	18.21%

Fig. 14: Asset Utilisation

	2020	2021	2022F	2023F
cash/sales	0.09	0.04	0.04	0.04
Sales to inventory (x)	9.34	7.03	7.14	7.14
Sales to total assets (x)	0.76	0.90	0.90	0.90
sales/EBITDA	4.97	5.28	5.49	5.36
Sales to total fixed assets	1.58	1.70	1.69	1.69
Equity multiplier	2.77	2.82	2.92	2.92

Fig. 15: Liquidity Ratios

	2020	2021	2022F	2023F
Quick ratio	0.27	0.21	0.22	0.22
Current ratio	0.44	0.44	0.44	0.44
Cash ratio	0.14	0.06	0.06	0.06
Interest Coverage	0.63	1.31	3.19	3.48
Op. Cash Flow Ratio	0.14	0.15	0.13	0.14
Debt/net income	12.41	2.48	1.67	1.52
Debt/operating profit	3.09	0.76	0.87	0.81
Debt to asset	0.21	0.06	0.06	0.06
Debt to equity	0.57	0.18	0.19	0.19
Total liabilities/equity	1.77	1.82	1.92	1.92
Total liab./ Total Assets	0.64	0.65	0.66	0.66
Inventory turnover	2.93	2.82	2.87	2.30
Inventory days	66.34	63.97	57.34	79.18
Account rec. days	12.36	22.12	21.90	21.90

Fig. 16: Shareholders' Investment Ratios

	2020	2021	2022F	2023F
Earnings per share	2.01	0.94	2.54	2.93
DiV per share	2.01	0.94	2.00	2.40
NAVPS	20.98	20.16	22.44	23.56
Earnings yield	4.20%	1.96%	5.29%	6.11%
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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