

Lockdown Adversely Impacts H1'20 Performance

INVESTMENT SUMMARY

Most businesses struggled during the lockdown of economic activities in the first half of 2020 as a result of coronavirus outbreak which affected the global economy. Nigerian Breweries was not exempted as revenue of the company fell significantly by 10.80% to ₦151.81 billion in the first half of 2020 (vs. ₦170.19 billion in the first half of 2019). The decline in the revenue can be mainly attributed to the lockdown of economic activities in some states in Nigeria. During the lockdown, the businesses that remained inactive were hotels, restaurants, bar, parks, event planning, tourist centres and casino. Since these businesses are the major avenues for selling brewery products, the demand for beer, stouts, spirits & malts was adversely affected during the period. The cost of sales fell by 5.96% to ₦92.67 billion in H1'20 (vs. ₦98.54 billion in H1'19), mainly as a result of lower production during the period. Marketing and distribution expenses also fell by 10.03% to ₦34.34 billion in H1'20 (H1'19: ₦38.17 billion), due to lower distribution during the lockdown. However, administrative expenses rose by 6.86% to ₦10.09 billion in H1'20 (H1'19: ₦9.44 billion). Consequently, operating profit fell by 38.49% to ₦15.05 billion in H1'20 (H1'19: ₦24.46 billion).

The additional borrowing via commercial papers in the H1'20 largely affected finance costs as it rose by 29.94% to ₦6.82 billion (vs. ₦5.25 billion in H1'19). With the unimpressive numbers across board, profit before tax plunged by 57.00% to ₦8.35 billion in H1'20 (vs. ₦19.41 billion in H1'19). A provision of ₦2.76 billion was made for tax in H1'20 (H1'19: ₦6.09 billion) and as a result, profit after tax fell by 58.03% to ₦5.59 billion in H1'20, (vs. ₦13.32 billion in H1'19). The disappointing result showed on 12-month trailing EPS as it reduced to ₦1.05, from ₦1.79 reported in the previous period. Based on the recent figures and expectation of lower demand, we downgrade our recommendation to **HOLD** rating as present forward estimates places the company share price at ₦31.11.

Fig. 1: Quarterly results highlights

	2Q2020	1Q2020	2Q2019	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	68,652	83,204	86,914	-17.49%	-21.01%
Operating profit (₦mn)	4,132	10,915	10,406	-62.14%	-60.29%
Net profit (₦mn)	84	5,506	5,589	-98.47%	-98.50%

Source: Bloomberg, PAC Research

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Price:

- Current	₦34.00
- Target	₦31.11
Recommendation:	HOLD

* As at Tuesday August 11, 2020

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-42.37%/-32.00%
52-week range	₦22.00 - ₦59.75
30-day Average vol.	5,217,034
Shares Outstanding (mn)	7,996.90
Market Cap. (₦bn)	271.90
EPS, ₦- 12months trailing	1.05
DPS, ₦- FY2019	2.01

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

Fig. 3: Key ratios

	H1'20	H1'19
Gross profit margin	38.96%	42.10%
Net profit margin	3.68%	7.83%
Equity multiplier	2.88x	2.34x
Asset turnover	0.33x	0.44x

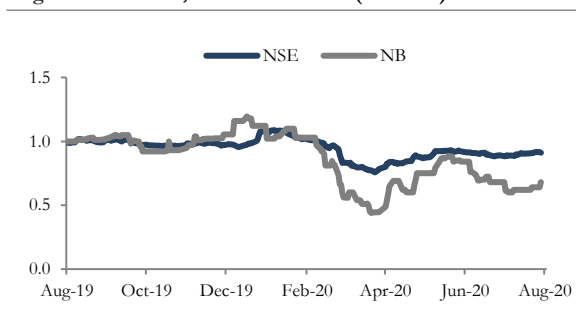
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2018	FY2019	FY2020E	FY2021F
P/E	13.99x	16.88x	19.76x	16.58x
P/B	1.63x	1.62x	2.07x	1.81x
Payout Ratio	99.97x	99.80x	92.99x	87.79x
EV/EBITDA	4.33x	4.73x	6.05x	5.62x
P/S	0.84	0.84	0.94	0.90
ROE	11.65%	9.60%	10.48%	10.95%
ROA	5.01%	4.21%	3.34%	3.88%
Div. Yield	7.15%	5.91%	4.71%	5.29%

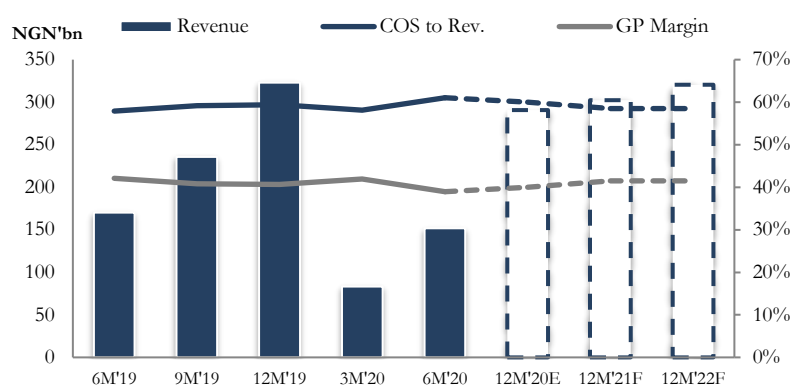
Source: NSE, PAC Research

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



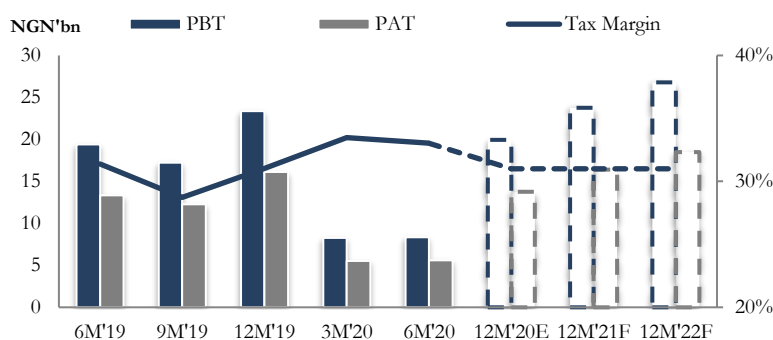
Source: Bloomberg, PAC Research

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



Source: NSE, PAC Research

Fig. 7: PBT, PAT and Tax Margin – 6M'19 – 12M'22F



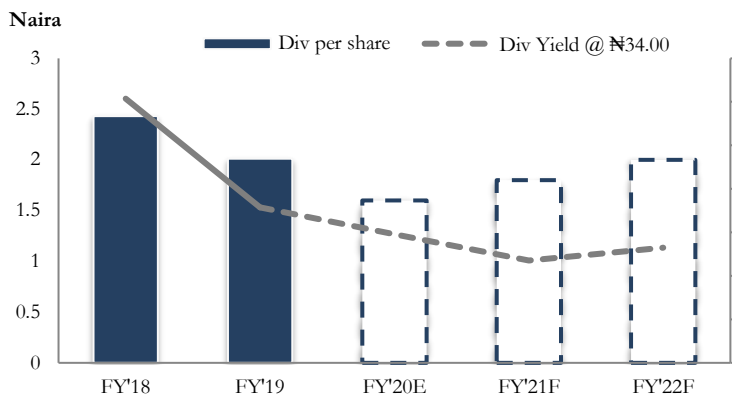
Source: NSE, PAC Research

Strong balance sheet will help to minimize the negative effects of COVID-19 pandemic; Expectation of lower dividend in FY'20:

Nigerian Breweries Plc recorded impressive figure for total asset as it increased by 19.95% to ₦464.12 billion in Q2'20 (vs. ₦386.93 billion in Q2'19). The increase in total assets of the company can be mainly attributed to investment in property, plant and equipment during the period. However, due to significant increase of 252.53% in loans and borrowings as a result of issuance of more commercial papers in the first half of 2020, total liabilities increased by 36.77% to ₦303.23 billion Q2'20 (vs. ₦221.71 billion in Q2'19). Consequently, net assets declined by 2.62% to ₦160.89 billion in the second quarter of 2020, from ₦165.23 billion recorded in the second quarter of 2019. This translated to a lower Net Assets per Shares (NAPS) of ₦20.12 in Q2'20 (vs. ₦22.30 realised in Q2'19). Going forward, we do not expect Nigerian Breweries to perform well in 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, we expect Nigerian Breweries Plc to reward the shareholders with lower dividend payment in full year of 2020.

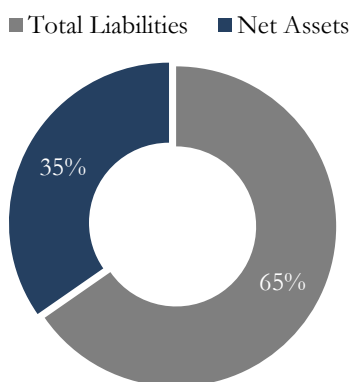
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Fig. 8: Dividend Per Share and Dividend Yield - FY'18 - FY'22F



Source: NSE, PAC Research

Fig. 9: Total Liabilities Vs Net Asset in H1'20



Source: NSE, PAC Research

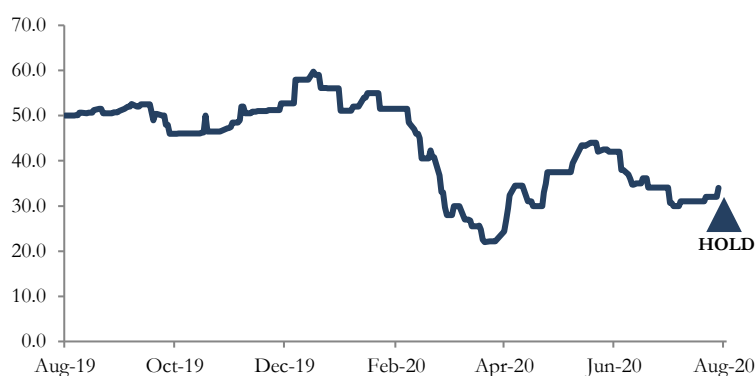
Valuation

Our valuation puts the target price of the stock at ₦31.11, representing a decline of 8.49% from the current price of ₦34.00. In arriving at the target price, we employed discounted cashflow valuation methodology. Consequently, we maintained **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.

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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	290,707	302,335
Change	-5.85%	-0.43%	-10.00%	4.00%
Cost of sales	197,485	191,757	174,424	176,866
Change	-1.76%	-2.90%	-9.04%	1.40%
Gross profit	126,904	131,251	116,283	125,469
Change	-11.60%	3.43%	-11.40%	7.90%
Other income	885	1,005	1,017	1,058
Change	-60.09%	13.54%	1.21%	4.00%
Marketing & Distr. Exp.	70,052	77,695	66,863	72,560
Change	4.71%	10.91%	-13.94%	8.52%
Administrative expenses	20,785	19,355	19,187	19,954
Change	-4.43%	-6.88%	-0.87%	4.00%
Results from op. activities	36,952	35,206	31,251	34,013
Change	-35.31%	-4.72%	-11.23%	8.84%
Net Finance costs	7,530	11,854	11,308	10,249
Change	-28.23%	57.43%	-4.60%	-9.37%
Profit Before Taxation	29,422	23,352	19,942	23,764
Change	-36.90%	-20.63%	-14.60%	19.16%
Taxation	9,984	7,246	6,182	7,367
Change	-26.49%	-27.43%	-14.68%	19.16%
Profit After Taxation	19,438	16,106	13,760	16,397
Change	-41.18%	-17.14%	-14.56%	19.16%

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

	2018	2019	2020E	2021F
PPE	203,493	201,907	200,588	207,704
Intangible assets	97,136	96,466	93,026	96,747
Investments	150	150	145	151
Other receivables	662	652	640	665
Prepayments	538	0	0	0
Inventories	32,507	38,520	39,245	40,815
Trade and other rec.	35,153	21,307	20,349	21,163
Cash and bank Bal.	14,793	6,361	29,071	24,187
Total Assets	388,263	382,778	412,484	422,574
current tax liabilities	14,579	12,799	15,989	16,628
Dividend payable	7,932	5,742	11,628	9,070
Trade and Other pa.	114,152	102,783	97,387	99,771
Loans and Borrowings	31,412	38,893	18,896	19,652
Employee benefits	16,057	13,434	12,500	13,000
Deferred tax liab.	24,554	23,171	21,803	22,675
Total liabilities	221,434	215,028	281,230	272,767
Net Assets	166,828	167,750	131,254	149,807

Fig. 13: Profitability Ratio

	2018	2019	2020E	2021F
Gross profit margin	39.12%	40.63%	40.00%	41.50%
Net Profit Margin	5.99%	4.99%	4.73%	5.42%
operating profit margin	11.39%	10.90%	10.75%	11.25%
Return on Equity	11.65%	9.60%	10.48%	10.95%
Return on Assets	5.01%	4.21%	3.34%	3.88%
Return on Assets	21.34%	21.03%	20.65%	21.05%
ROCE	15.47%	14.47%	16.94%	16.58%

Fig. 14: Asset Utilisation

	2018	2019	2020E	2021F
cash/.sales	0.05	0.02	0.10	0.08
Sales to inventory (x)	9.98	8.39	7.41	7.41
Sales to total assets (x)	0.84	0.84	0.70	0.72
sales/EBITDA	4.69	4.75	4.84	4.75
Sales to total fixed assets	1.59	1.60	1.45	1.46
Equity multiplier	2.33	2.28	3.14	2.82

Fig. 15: Liquidity Ratios

	2018	2019	2020E	2021F
Quick ratio	0.36	0.24	0.24	0.24
Current ratio	0.58	0.52	0.42	0.43
Cash ratio	0.10	0.05	0.13	0.11
Interest Coverage	3.73	1.93	1.72	2.25
Op. Cash Flow Ratio	0.25	0.25	0.14	0.16
Debt/net income	2.19	3.46	8.77	6.73
Debt/operating profit	1.15	1.58	3.86	3.24
Debt to asset	0.11	0.15	0.29	0.26
Debt to equity	0.26	0.33	0.92	0.74
Total liabilities/equity	1.33	1.28	2.14	1.82
Total liaB./ Total Assets	0.57	0.56	0.68	0.65
Inventory turnover	2.62	2.70	2.24	2.21
Inventory days	68.00	69.81	83.02	82.61
Account rec. days	39.55	24.08	25.55	25.55

Fig. 16: Shareholders' Investment Ratios

	2018	2019	2020E	2021F
Earnings per share	2.43	2.01	1.72	2.05
DiV per share	2.43	2.01	1.60	1.80
NAVPS	20.86	20.98	16.41	18.73
Earnings yield	7.15%	5.92%	5.06%	6.03%
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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