

Sluggish Profit Growth as High OPEX in Q2'21 Weighs on Improved Revenue

INVESTMENT SUMMARY

Nigerian Breweries continued with strong recovery in the first half of 2021 as revenue increased significantly by 37.84% to ₦209.26 billion (vs. ₦151.81 billion in first half of 2020), driven by improved demand and higher prices during the period. However, the cost of sales increased significantly by 41.73% to ₦131.34 billion in H1'21 (vs. ₦92.67 billion in H1'20), due to higher production volumes and high inflation rate during the period. In addition, the marketing, distribution and administrative expenses rose by 31.96% to ₦58.63 billion in H1'21 (H1'20: ₦44.43 billion), as a result of higher advertising and sales expenses, higher repairs and maintenance costs, among others. Despite the significant increase in the operating expenses, the EBITDA of the company increased by 19.42% to ₦39.67 billion in H1'21 (H1'20: ₦33.22 billion).

The net finance cost increased by 19.05% to ₦7.98 billion in H1'21 (vs. ₦6.70 billion in H1'20), as the company continued to service the additional borrowing (via commercial papers) during the period. The impressive operating performance during the period outweighed the setback recorded in non-operating activities as profit before tax rose by 43.07% to ₦11.94 billion in H1'21 (H1'20: ₦8.35 billion). Notwithstanding the higher tax provision of ₦4.22 billion for tax (H1'20: ₦2.76 billion), profit after tax improved by 38.09% to ₦7.72 billion in H1'21 (vs. ₦5.59 billion in H1'20).

We expect the revenue of the company to continue to increase in the second half of 2021 due to the expectation of improved economic activities and acceptance of new brands (Desperados, Star Radler - Red Fruits and Amstel Malta Ultra) in the market. However, high operating expenses may be a major threat to the profitability of the company in the second half of 2021. Based on the recent figures and projection, we maintain a **HOLD** recommendation as present forward estimates places the company share price at ₦54.39 (Previous TP: ₦60.28).

Fig. 1: Quarterly results highlights

	2Q2021	1Q2021	2Q2020	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	103,581	105,676	68,652	-1.98%	+50.88%
Operating profit (₦mn)	5,427	14,490	4,132	-62.55%	+31.34%
Net profit (₦mn)	65	7,660	84	-99.15%	-22.62%

Source: Bloomberg, PAC Research

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Price:

- Current	₦52.00
- Target	₦54.39
Recommendation:	HOLD

* As at Wednesday August 25, 2021

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-7.44%/+44.44%
52-week range	₦36.00 - ₦63.25
30-day Average vol.	590,868
Shares Outstanding ('mn)	7,996.90
Market Cap. (₦bn)	415.84
EPS, ₦- 12months trailing	1.19
DPS, ₦- FY2020	0.94

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

Fig. 3: Key ratios

	H1'21	H1'20
Gross profit margin	37.24%	38.96%
Net profit margin	3.69%	3.68%
Equity multiplier	2.67x	2.88x
Asset turnover	0.47x	0.33x

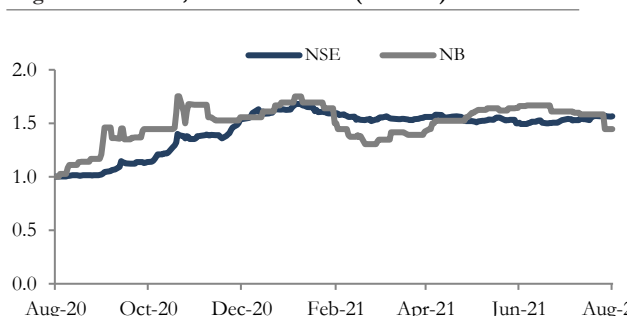
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2019	FY2020	FY2021F	FY2022F
P/E	25.82x	55.32x	28.94x	19.17x
P/B	2.48x	2.58x	2.49x	2.33x
Payout Ratio	99.80x	100.00x	66.78x	62.67x
EV/EBITDA	6.85x	7.02x	6.09x	5.30x
P/S Ratio	1.29	1.23	1.02	0.97
ROE	9.60%	4.57%	8.60%	12.15%
ROA	4.21%	1.65%	3.06%	4.40%
Div. Yield	3.87%	1.81%	2.31%	3.27%

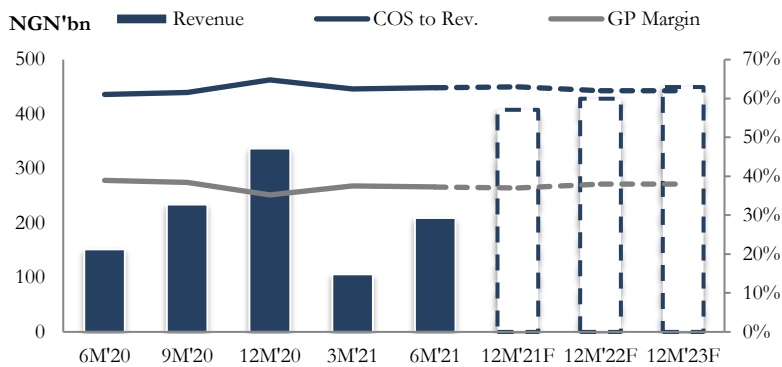
Source: NSE, PAC Research

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



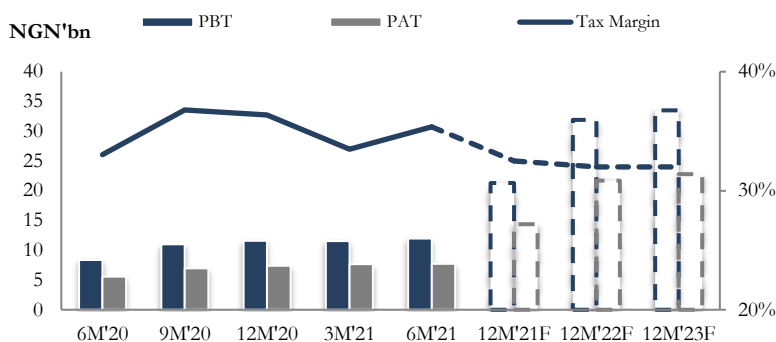
Source: Bloomberg, PAC Research

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



Source: NSE, PAC Research

Fig. 7: PBT, PAT and Tax Margin – 3M'20 – 12M'23F



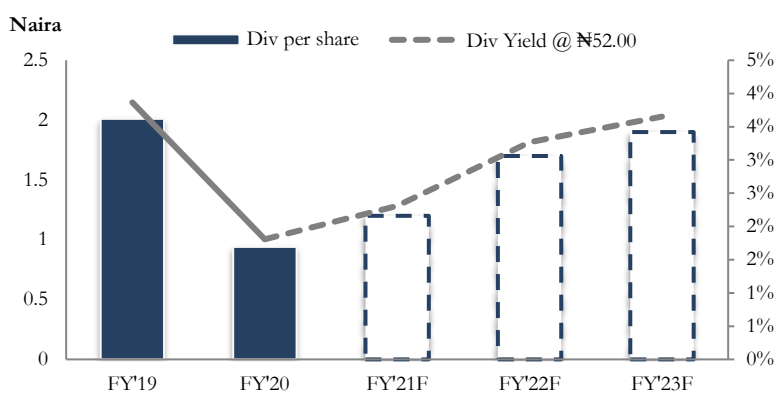
Source: NSE, PAC Research

Nigerian Breweries maintains strong balance sheet in the first half of 2021; Expectation of slight increase in dividend payment in FY'21: In the half year of 2021, Nigerian Breweries Plc maintained a strong balance sheet despite a decline in the total assets of the company. The total asset of the company fell by 4.02% to ₦445.47 billion in H1'21 (vs. ₦464.12 billion in H1'20), mainly driven by significant fall in trade & other receivables and cash & cash equivalents. However, the total liabilities of the company declined by 8.13% to ₦278.56 billion H1'21 (vs. ₦303.23 billion in H1'20) due to significant decline in short-term loans and borrowings during the period. Short-term loans and borrowings fell by 73.52% to ₦29.86 billion H1'21 (vs. ₦112.74 billion in H1'20) as the company continues to reduce its leverage.

Consequently, the net assets of the company improved by to ₦166.91 billion in the first half of 2021, from ₦160.89 billion recorded in the first half of 2020. This resulted in a higher Net Assets per Shares (NAPS) of ₦20.87 in H1'21 (H1'20: ₦20.12). Although the balance sheet remains very strong, the higher operating expenses, if not properly managed, may adversely affect the operating performance of the company in the second half of 2021. Hence, we expect a slight increase in dividend payment in the full year of 2021.

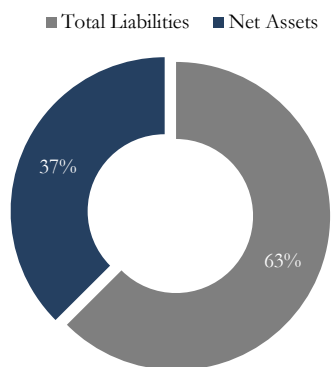
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Fig. 8: Dividend Per Share and Dividend Yield - FY'19 - FY'23F



Source: NSE, PAC Research

Fig. 9: Total Liabilities Vs Net Asset in H1'21



Source: NSE, PAC Research

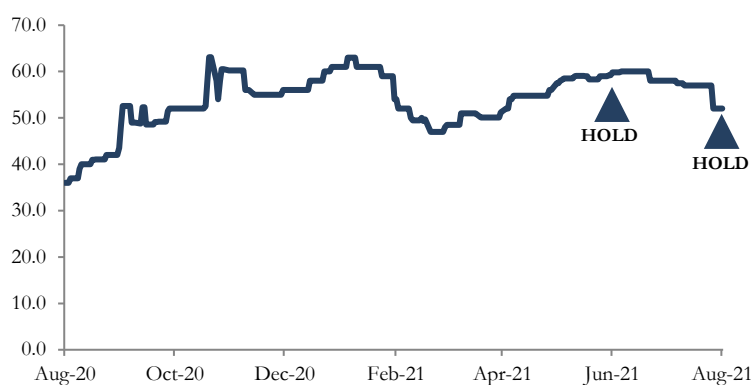
Valuation

Our valuation puts the target price of the stock at ₦54.39, representing an increase of 4.59% from the current price of ₦52.00. 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 and increased competition within the industry.

Our valuation puts the target price of the stock at ₦54.39, representing an increase of 4.59% from the current price of ₦52.00.

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	407,826	428,217
Change	-6.26%	4.35%	21.00%	5.00%
Cost of sales	191,757	218,355	256,930	265,495
Change	-4.61%	13.87%	17.67%	3.33%
Gross profit	131,251	118,691	150,896	162,723
Change	-8.57%	-9.57%	27.13%	7.84%
Other income	1,005	828	1,020	1,499
Change	-54.69%	-17.63%	23.13%	47.00%
Marketing & Distr. Exp.	77,695	70,702	90,048	89,926
Change	16.14%	-9.00%	27.36%	-0.14%
Administrative expenses	19,355	19,212	23,654	24,837
Change	-11.00%	-0.74%	23.12%	5.00%
Results from op. activities	35,206	29,605	38,213	49,459
Change	-38.37%	-15.91%	29.08%	29.43%
Net Finance costs	11,854	18,028	16,925	17,557
Change	12.99%	52.09%	-6.12%	3.73%
Profit Before Taxation	23,352	11,577	21,289	31,902
Change	-49.92%	-50.43%	83.89%	49.86%
Taxation	7,246	4,208	6,919	10,209
Change	-46.65%	-41.92%	64.41%	47.55%
Profit After Taxation	16,106	7,368	14,370	21,693
Change	-51.27%	-54.25%	95.02%	50.97%

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

	2019	2020	2021E	2022F
PPE	201,907	213,412	224,304	235,519
Intangible assets	96,466	95,272	97,878	102,772
Investments	150	150	151	152
Other receivables	652	911	1,101	1,156
Prepayments	0	0	0	0
Inventories	38,520	36,087	40,783	42,822
Trade and other rec.	21,307	11,417	22,430	23,552
Cash and bank Bal.	6,361	30,370	18,352	19,270
Total Assets	382,778	445,857	469,110	493,329
current tax liabilities	12,799	11,713	14,274	14,988
Dividend payable	5,742	7,707	9,380	9,849
Trade and Other pa.	102,783	139,201	154,974	158,440
Loans and Borrowings	50,894	39,637	40,783	42,822
Employee benefits	13,434	16,720	20,391	21,411
Deferred tax liab.	23,171	17,854	19,576	20,554
Total liabilities	215,028	284,678	301,954	314,825
Net Assets	167,750	161,179	167,156	178,504

Fig. 13: Profitability Ratio

	2019	2020	2021E	2022F
Gross profit margin	40.63%	35.22%	38.00%	38.00%
Net Profit Margin	4.99%	2.19%	3.52%	5.07%
operating profit margin	10.90%	8.78%	9.37%	11.55%
Return on Equity	9.60%	4.57%	8.60%	12.15%
Return on Assets	4.21%	1.65%	3.06%	4.40%
Return on Assets	21.03%	20.14%	19.27%	21.35%
ROCE	13.79%	12.58%	15.41%	18.78%

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	10.00	10.00
Sales to total assets (x)	0.84	0.76	0.87	0.87
sales/EBITDA	4.75	4.97	5.19	4.68
Sales to total fixed assets	1.60	1.58	1.82	1.82
Equity multiplier	2.28	2.77	2.81	2.76

Fig. 15: Liquidity Ratios

	2019	2020	2021E	2022F
Quick ratio	0.27	0.27	0.27	0.28
Current ratio	0.57	0.44	0.46	0.46
Cash ratio	0.05	0.14	0.08	0.08
Interest Coverage	1.93	0.63	1.24	1.77
Op. Cash Flow Ratio	0.28	0.14	0.17	0.22
Debt/net income	3.46	12.41	5.68	4.05
Debt/operating profit	1.58	3.09	2.13	1.77
Debt to asset	0.15	0.21	0.17	0.18
Debt to equity	0.33	0.57	0.49	0.49
Total liabilities/equity	1.28	1.77	1.81	1.76
Total liab./ Total Assets	0.56	0.64	0.64	0.64
Inventory turnover	2.70	2.93	3.24	3.18
Inventory days	69.81	66.34	57.89	57.47
Account rec. days	24.08	12.36	20.08	20.08

Fig. 16: Shareholders' Investment Ratios

	2018	2019	2020E	2021F
Earnings per share	2.01	0.94	1.80	2.71
DiV per share	2.01	0.94	1.20	1.70
NAVPS	20.98	20.16	20.90	22.32
Earnings yield	3.87%	1.81%	3.46%	5.22%
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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