

Higher Excise Duty and Higher Input Costs Put Pressure on Bottom-Line

INVESTMENT SUMMARY

In line with our projection, the recently released three-month to March 2019 unaudited report by Nigerian Breweries Plc displayed an impressive figure for the top-line as revenue increased by 3.33% to ₦91.39 billion (vs. ₦88.45 billion in three-month to March 2018). However, due to higher excise duty, revenue further depleted to ₦83.28 billion in Q1'19 (vs. ₦82.97 billion in Q1'18) as ₦8.11 billion accounted for excise duty expense during the period, compared to ₦5.48 billion in the corresponding quarter of the previous year. The company reported higher cost of sales as it rose by 7.29% to ₦48.22 billion (vs. ₦44.95 billion in Q1'18) and this translated to higher cost-to-sales margin of 52.77% in Q1'19 (vs. 50.82% in Q1'18). The increase in the cost of sales can be mainly attributed to higher expenses on raw materials & consumables which increased by 8.66% to ₦30.84 billion in Q1'19 (vs. ₦28.38 billion in Q1'18). During the period, marketing & distribution expenses rose by 7.91% to ₦16.55 billion (Q1'18: ₦15.34 billion) while administrative expenses fell by 12.07% to ₦4.60 billion in Q1'19 (Q1'18: ₦5.23 billion). The unimpressive figure from the operating activities resulted in a lower EBITDA of ₦14.06 billion in Q1'19, relative to ₦17.66 billion reported in Q1'18.

As a result of higher excise duty and higher input cost, profit before tax fell by 24.86% to ₦11.46 billion (vs. ₦15.25 billion in Q1'18). The company made a provision of ₦3.43 billion for tax in Q1'19 (Q1'18: ₦5.05 billion), hence profit after tax declined by 21.35% to ₦8.03 billion in Q1'19 (vs. ₦10.20 billion reported in Q1'18). Consequently, 12-month trailing EPS reduced by 45.73% to ₦2.16, from ₦3.98 reported in the previous period. Based on the recent figures released by the company and challenging pricing environment, we maintain a **HOLD** rating as present forward estimates places the company share price at ₦66.82.

Fig. 1: Quarterly results highlights

	1Q2019	4Q2018	1Q2018	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	83,278	86,323	82,966	-3.53%	+0.38%
Operating profit (₦mn)	14,057	9,196	17,664	+52.86%	-20.42%
Net profit (₦mn)	8,026	4,648	10,204	+72.68%	-21.34%

Source: Bloomberg, PAC Research

Oluwole Adeyeye

oluwole.adeyeye@panafricancapitalholdings.com

Price:

- Current	₦61.70
- Target	₦66.82
Recommendation:	HOLD

* As at Wednesday May 22, 2019

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-27.84%/-50.12%
52-week range	₦127.00 - ₦56.70
30-day Average vol.	2,275,188
Shares Outstanding ('mn)	7,996.90
Market Cap. (₦bn)	493.41
EPS, ₦- 12months trailing	2.16
DPS, ₦- FY2018	2.43

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

Fig. 3: Key ratios

	Q1'19	Q1'18
Gross profit margin	42.09%	45.82%
Net profit margin	9.64%	12.30%
Equity multiplier	2.22x	2.10x
Asset turnover	0.21x	0.21x

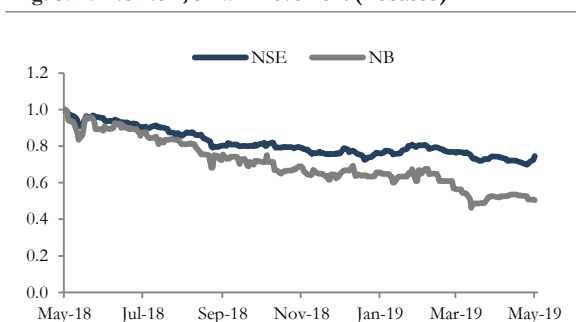
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2017	FY2018	FY2019E	FY2021F
P/Sales	1.43x	1.52x	1.48x	1.41x
P/E	14.93x	25.38x	20.17x	17.08x
PEG	0.92x	-0.62x	0.78x	0.95x
EV/EBITDA	5.41x	7.53x	6.91x	6.26x
P/B	2.77x	2.96x	2.79x	2.72x
ROE	18.54%	11.65%	13.82%	15.91%
ROA	8.65%	5.01%	6.11%	6.94%
Div. Yield	6.69%	3.94%	4.73%	5.11%

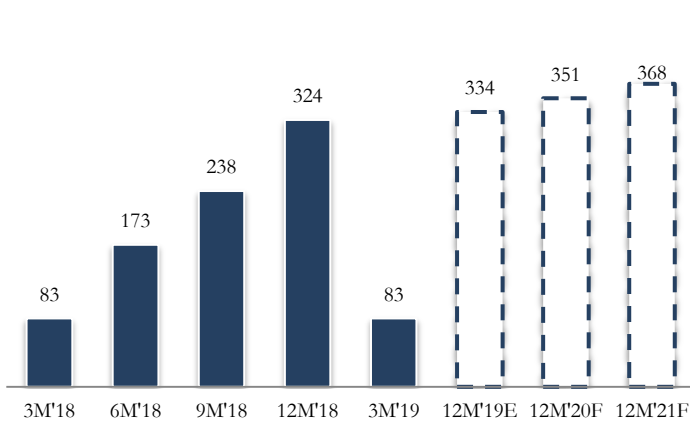
Source: NSE, PAC Research

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



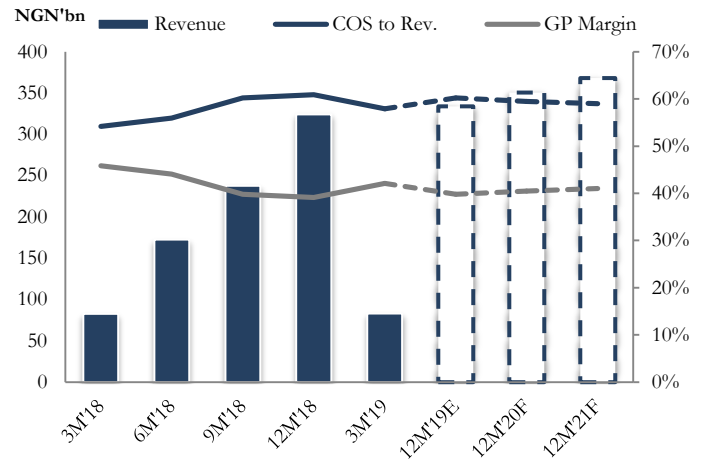
Source: Bloomberg, PAC Research

Fig. 6: Net Revenue – 3M'18 - 12M'21F (Billion NGN)



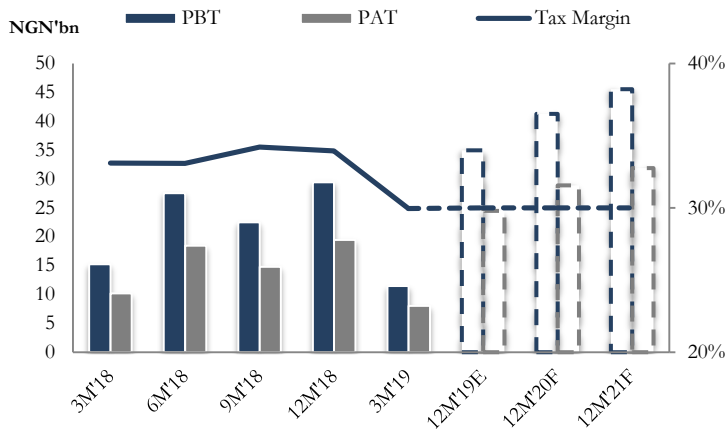
Source: NSE, PAC Research

Fig. 7: Revenue, COS to Rev. and GP Margin - 3M'18-12M'21F



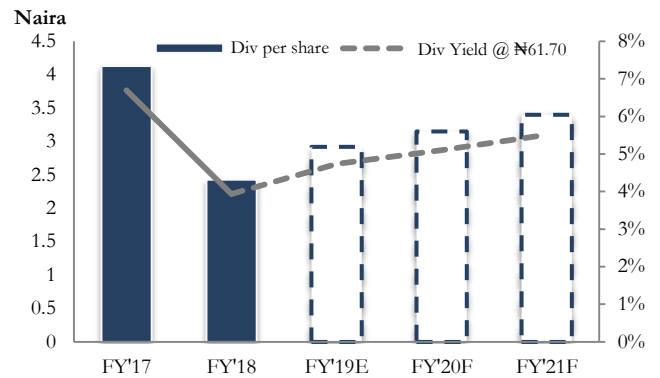
Source: NSE, PAC Research

Fig. 8: PBT, PAT and Tax Margin - 3M'18 - 12M'21F



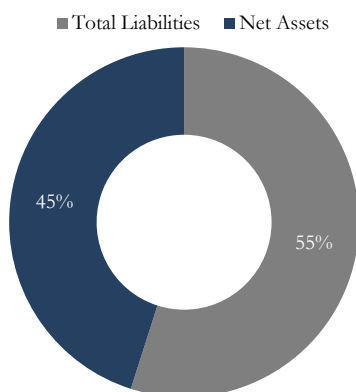
Source: NSE, PAC Research

Fig. 9: Dividend Per Share and Dividend Yield - FY'17- FY'21F



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in Q1'19



Source: NSE, PAC Research

Valuation

Our valuation puts the target price of the stock at ₦66.82, representing an increase of 8.30% from the current price of ₦61.70. 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 and increased competition within the industry.

Our valuation puts the target price of the stock at ₦66.82, representing an increase of 8.30% from the current price of ₦61.70.

Fig. 11: Share Price History (Naira)



Source: NSE, PAC Research

PLEASE NOTE THAT WE COULD NOT HAVE COMPREHENSIVE REPORTS DUE TO THE LACK OF ADEQUATE INFORMATION FROM NIGERIAN BREWERIES PLC.

Fig. 12: Statement of Profit or Loss, N'mn

	2017	2018	2019E	2020F
Revenue	344,563	324,389	334,120	350,826
Change		-5.85%	3.00%	5.00%
Cost of sales	201,013	197,485	201,140	208,742
Change		-1.76%	1.85%	3.78%
Gross profit	143,549	126,904	132,980	142,085
Change		-11.60%	4.79%	6.85%
Other income	2,219	885	835	877
Change		-60.09%	-5.65%	5.00%
Marketing & Distr. Exp.	66,899	70,052	71,836	73,673
Change		4.71%	2.55%	2.56%
Administrative expenses	21,748	20,785	20,047	21,050
Change		-4.43%	-3.55%	5.00%
Results from op. activities	57,121	36,952	41,932	48,239
Change		-35.31%	13.48%	15.04%
Net Finance costs	10,491	7,530	6,983	6,981
Change		-28.23%	-7.26%	-0.02%
Profit Before Taxation	46,630	29,422	34,949	41,257
Change		-36.90%	18.79%	18.05%
Taxation	13,581	9,984	10,485	12,377
Change		-26.49%	5.01%	18.05%
Profit After Taxation	33,049	19,438	24,464	28,880
Change		-41.18%	25.86%	18.05%

Fig. 13: Statement of Financial Position, N'mn

	2017	2018	2019E	2020F
PPE	195,230	203,493	207,154	214,004
Intangible assets	98,277	97,136	96,895	101,740
Investments	150	150	150	154
Other receivables	552	662	668	702
Prepayments	526	538	501	526
Inventories	42,729	32,507	33,412	34,938
Trade and other rec.	20,384	35,153	34,080	35,083
Cash and bank Bal.	15,867	14,793	15,386	16,155
Total Assets	382,228	388,263	400,463	416,128
current tax liabilities	19,606	14,579	15,035	15,787
Dividend payable	8,029	7,932	7,852	8,244
Trade and Other pa.	127,947	114,152	115,271	121,035
Loans and Borrowings	8,000	41,128	40,094	42,099
Employee benefits	13,210	16,057	17,374	18,243
Deferred tax liab.	26,667	24,554	24,892	26,137
Total liabilities	203,930	221,434	223,496	234,594
Net Assets	178,298	166,828	176,967	181,534

Fig. 14: Profitability Ratio

	2017	2018	2019E	2020F
Gross profit margin	41.66%	39.12%	39.80%	40.50%
Net Profit Margin	9.59%	5.99%	7.32%	8.23%
Op. Profit Margin	16.58%	11.39%	12.55%	13.75%
Return on Equity	18.54%	11.65%	13.82%	15.91%
Return on Assets	8.65%	5.01%	6.11%	6.94%
EBITDA Margin	26.06%	21.34%	22.50%	23.70%
ROCE	25.26%	14.87%	16.16%	17.99%

Fig. 15: Asset Utilisation

	2017	2018	2019E	2020F
cash/.sales	0.05	0.05	0.05	0.05
Sales to inventory (x)	8.06	9.98	10.00	10.04
Sales to total assets (x)	0.90	0.84	0.83	0.84
sales/EBITDA	3.84	4.69	4.44	4.22
Sales to total fixed assets	1.76	1.59	1.61	1.64
Equity multiplier	2.14	2.33	2.26	2.29

Fig. 16: Liquidity Ratios

	2017	2018	2019E	2020F
Quick ratio	0.29	0.38	0.37	0.37
Current ratio	0.56	0.62	0.61	0.60
Cash ratio	0.10	0.11	0.11	0.11
Interest Coverage	4.37	3.73	4.75	5.60
Op. Cash Flow Ratio	0.37	0.26	0.30	0.33
Debt/net income	0.26	2.19	1.69	1.51
Debt/operating profit	0.15	1.15	0.99	0.90
Debt to asset	0.02	0.11	0.10	0.10
Debt to equity	0.05	0.26	0.23	0.24
Total liabilities/equity	1.14	1.33	1.26	1.29
Total liab./ Total Assets	0.53	0.57	0.56	0.56
Inventory turnover	2.72	2.62	3.05	3.05
Inventory days	67.16	68.00	60.93	59.76
Account rec. days	21.59	39.55	37.23	36.50

Fig. 17: Shareholders' Investment Ratios

	2017	2018	2019E	2020F
Earnings per share	4.13	2.43	3.06	3.61
DiV per share	4.13	2.43	2.92	3.15
NAVPS	22.30	20.86	22.13	22.70
Earnings yield	6.70%	3.94%	4.96%	5.85%
FCFPS	9.01	9.10	9.19	9.28

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

IMPORTANT DISCLOSURES

This research report has been prepared by the analyst(s), whose name(s) appear on the front page of this document, to provide background information about the issues which are the subject matter of this report. It is given for information purposes only.

Each analyst hereby certifies that with respect to the issues discussed herein, all the views expressed in this document are his or her own and reflect his or her personal views about any and all of such matters. These views are not necessarily held or shared by PanAfrican Capital or any of its affiliate companies. The analyst(s) views herein are expressed in good faith and every effort has been made to base our opinion on reliable comprehensive information but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither the analysts nor PanAfrican Capital is under any obligation to notify you or make public any announcement with respect to such change.

This report is produced independently of PanAfrican Capital and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of the analysts. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the recommendations, forecasts, opinions, estimates, expectations and views contained herein are fair and reasonable, none of the analysts, PanAfrican Capital nor any of its directors, officers or employees has verified the contents hereof and accordingly, none of the analysts, PanAfrican Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof.

With the exception of information regarding PanAfrican Capital, reports prepared by PanAfrican Capital analysts are based on public information. Facts and views presented in this report have not been reviewed and may not reflect information known to professionals on other PanAfrican Capital business areas including investment banking. This report does not provide individually tailored investment advice. Reports are prepared without regard to individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. It is recommended that investors independently evaluate particular investments and strategies. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances or objectives. Neither the analyst(s), PanAfrican Capital, any of its respective directors, officers nor employees accepts any liability whatsoever for any loss so ever arising from any use of this report or its contents or otherwise arising in connection therewith. Each analyst and/or any person connected with any analyst may have acted upon or used the information herein contained, or the research or analysis on which it is based prior to its publication date. This document may not be relied upon by any of its recipients or any other person in making investment decisions.

Each research analyst certifies that no part of his or her compensation was, or will be directly or indirectly related to the specific recommendations (if any), opinions, forecasts, estimates or views in this report. Analysts' compensation is based upon activities and services intended to benefit clients of PanAfrican Capital. As with other employees of PanAfrican Capital, analysts' compensation is impacted by the overall profitability of PanAfrican Capital, which includes revenues from all business areas of PanAfrican Capital.

PanAfrican Capital Holdings Ltd

8A, Elsie Femi Pearse Street

Victoria Island

Lagos, Nigeria

Tel: +234 (1) 2716899, 2718630

www.panafricancapitalholdings.com