

Strong Recovery in Q1 2021 as Revenue rises by 27% Year-on-Year

INVESTMENT SUMMARY

Nigerian Breweries is gradually recovering from the setback recorded in the sales of its various brands during the COVID-19 lockdown and restriction of movement last year. The easing of the lockdown continues to positively impact the performance of the company, as revenue grew by 26.98% to ₦105.68 billion in first quarter of 2021 (vs. ₦83.23 billion in first quarter of 2020). The increase in the revenue was driven by improved volume and higher prices during the period. Heineken and Tiger brands sales volume contributed majorly to the revenue growth. Also, increase in prices of various brands in March 2021 is another significant factor that supported the positive performance of the brewer. However, the cost of sales rose significantly by 36.56% to ₦66.00 billion in Q1'21 (vs. ₦48.33 billion in Q1'20), due to high inflation rate and higher volumes which led to 54% rise in raw materials and consumables costs. The marketing and distribution expenses increased by 5.36% to ₦19.80 billion in Q1'21 (Q1'20: ₦18.80 billion), mainly due to higher advertising and sales expenses. In addition, the administrative expenses of the company rose by 7.59% to ₦5.74 billion in Q1'21 (Q1'20: ₦5.34 billion), mainly due to higher employee benefits. The impressive operating performance reflected on EBITDA as it increased by 22.82% to ₦24.34 billion in Q1'21 (Q1'20: ₦19.82 billion).

The additional borrowing via commercial papers during the period largely affected net finance costs as it rose by 12.78% to ₦2.98 billion (vs. ₦2.64 billion in Q1'20). The impressive operating performance outweighed the setback in non-operating performance as profit before tax improved by 38.77% to ₦11.51 billion in Q1'21 (Q1'20: ₦8.30 billion). The company made a provision of ₦3.85 billion for tax in Q1'21 (Q1'20: ₦2.77 billion). Despite the higher tax provision, profit after tax improved significantly by 38.59% to ₦7.66 billion in Q1'21 (vs. ₦5.53 billion in Q1'20). Based on the recent figures, we maintain a **HOLD** recommendation as present forward estimates places the company share price at ₦60.28 (Previous TP: ₦54.44).

Fig. 1: Quarterly results highlights

	1Q2021	4Q2020	1Q2020	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	105,676	103,007	83,226	+2.59%	+26.97%
Operating profit (₦mn)	14,490	7,115	10,936	+103.65%	+32.50%
Net profit (₦mn)	7,660	429	5,527	+1686%	+38.59%

Source: Bloomberg, PAC Research

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Price:

- Current **₦59.05**

- Target **₦60.28**

Recommendation: **HOLD**

* As at Friday June 4, 2021

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+4.46% / +35.23%
52-week range	₦30.00 - ₦63.25
30-day Average vol.	594,709
Shares Outstanding ('mn)	7,996.90
Market Cap. (₦bn)	472.22
EPS, ₦- 12months trailing	1.19
DPS, ₦- FY2020	0.94

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

Fig. 3: Key ratios

	Q1'21	Q1'20
Gross profit margin	37.54%	41.92%
Net profit margin	7.25%	6.64%
Equity multiplier	2.88x	2.32x
Asset turnover	2.64x	2.49x

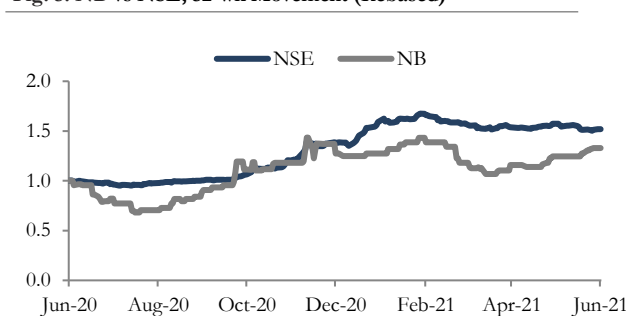
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2019	FY2020	FY2021F	FY2022F
P/E	29.32x	62.82x	26.61x	21.38x
P/B	2.82x	2.93x	2.68x	2.60x
Payout Ratio	99.80x	100.00x	67.60x	65.16x
EV/EBITDA	7.68x	7.85x	6.47x	5.96x
P/S Ratio	1.46	1.40	1.17	1.11
ROE	9.60%	4.57%	10.09%	12.19%
ROA	4.21%	1.65%	3.81%	4.52%
Div. Yield	3.40%	1.59%	2.54%	3.05%

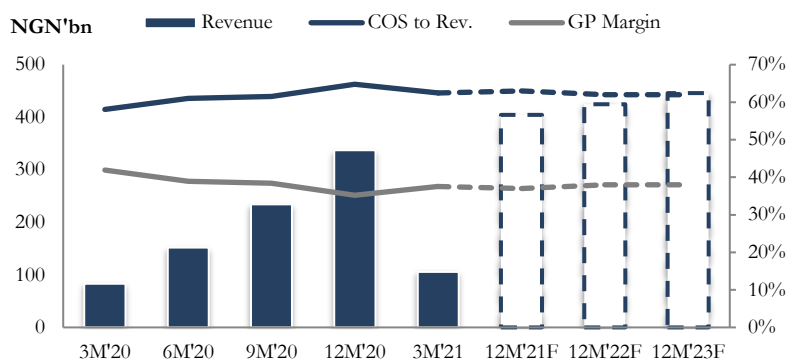
Source: NSE, PAC Research

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



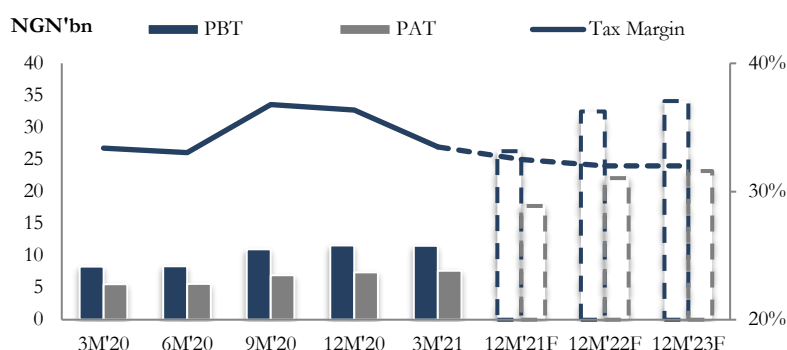
Source: Bloomberg, PAC Research

Fig. 6: Revenue, COS to Rev. and GP Margin – 3M'20 – 12M'23F



Source: NSE, PAC Research

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



Source: NSE, PAC Research

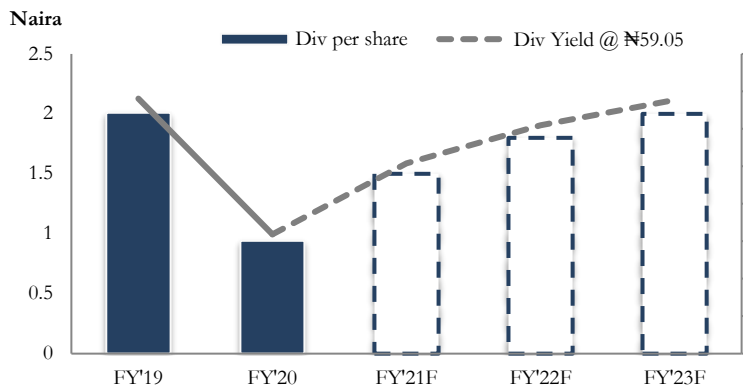
Balance sheet remains solid; Expectation of improved dividend in FY'21:

In the first quarter of 2021, Nigerian Breweries Plc recorded growth in total asset as it improved by 3.26% to ₦445.45 billion in Q1'21 (vs. ₦431.41 billion in Q1'20). The increase in the total assets of the company can be mainly attributed to improved Right of Use Assets, higher deposit for imports and higher investment in property, plant & equipment during the period. However, due to higher trade & other payables and significant increase in long-term loans and borrowings, bank overdraft and commercial papers (as a result of issuance of new commercial papers in March 2021), the total liabilities of the company increased by 7.17% to ₦276.62 billion Q1'21 (vs. ₦258.10 billion in Q1'20).

The increase in total liabilities outweighed the increase in total assets of the company and this resulted to a fall of 2.58% in net assets, which decline to ₦168.84 billion in the first quarter of 2021, from ₦173.30 billion recorded in the first quarter of 2020. This translated to a lower Net Assets per Shares (NAPS) of ₦21.11 in Q1'21 (Q1'20: ₦21.67). With the expectation of improved revenue in the coming quarters (as a result of higher prices in the market) and healthy balance sheet, the company may improve its full dividend payment in FY'21.

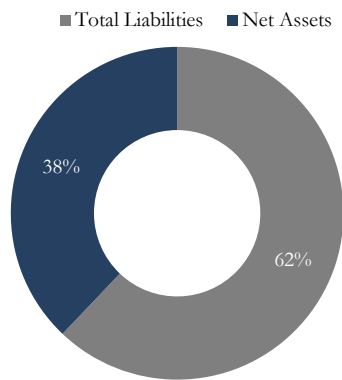
With the expectation of improved revenue in coming quarters... and healthy balance sheet, the company may improve its full dividend payment in FY'21.

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



Source: NSE, PAC Research

Fig. 9: Total Liabilities Vs Net Asset in Q1'21



Source: NSE, PAC Research

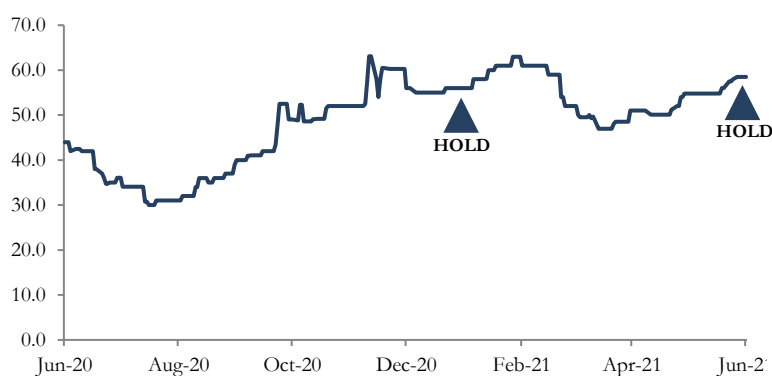
Valuation

Our valuation puts the target price of the stock at ₦60.28, representing an increase of 2.08% from the current price of ₦59.05. 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, 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

	2019	2020	2021F	2022F
Revenue	323,007	337,046	404,455	424,678
<i>Change</i>	-6.26%	4.35%	20.00%	5.00%
Cost of sales	191,757	218,355	254,807	263,301
<i>Change</i>	-4.61%	13.87%	16.69%	3.33%
Gross profit	131,251	118,691	149,649	161,378
<i>Change</i>	-8.57%	-9.57%	26.08%	7.84%
Other income	1,005	828	1,011	1,486
<i>Change</i>	-54.69%	-17.63%	22.11%	47.00%
Marketing & Distr. Exp.	77,695	70,702	84,936	89,182
<i>Change</i>	16.14%	-9.00%	20.13%	5.00%
Administrative expenses	19,355	19,212	23,458	24,631
<i>Change</i>	-11.00%	-0.74%	22.10%	5.00%
Results from op. activities	35,206	29,605	42,266	49,050
<i>Change</i>	-38.37%	-15.91%	42.77%	16.05%
Net Finance costs	11,854	18,028	15,976	16,562
<i>Change</i>	12.99%	52.09%	-11.38%	3.67%
Profit Before Taxation	23,352	11,577	26,290	32,488
<i>Change</i>	-49.92%	-50.43%	127.09%	23.58%
Taxation	7,246	4,208	8,544	10,396
<i>Change</i>	-46.65%	-41.92%	103.04%	21.68%
Profit After Taxation	16,106	7,368	17,745	22,092
<i>Change</i>	-51.27%	-54.25%	140.83%	24.49%

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

	2019	2020	2021F	2022F
PPE	201,907	213,412	222,451	233,573
Intangible assets	96,466	95,272	97,069	101,923
Investments	150	150	150	150
Other receivables	652	911	1,092	1,147
Prepayments	0	0	0	0
Inventories	38,520	36,087	40,446	42,468
Trade and other rec.	21,307	11,417	22,245	23,357
Cash and bank Bal.	6,361	30,370	18,200	19,111
Total Assets	382,778	445,857	465,233	489,252
current tax liabilities	12,799	11,713	14,156	14,864
Dividend payable	5,742	7,707	9,302	9,768
Trade and Other pa.	102,783	139,201	145,604	152,884
Loans and Borrowings	50,894	39,637	40,446	42,468
Employee benefits	13,434	16,720	20,223	21,234
Deferred tax liab.	23,171	17,854	19,414	20,385
Total liabilities	215,028	284,678	289,347	307,977
Net Assets	167,750	161,179	175,886	181,276

Fig. 13: Profitability Ratio

	2019	2020	2021F	2022F
Gross profit margin	40.63%	35.22%	38.00%	38.00%
Net Profit Margin	4.99%	2.19%	4.39%	5.20%
operating profit margin	10.90%	8.78%	10.45%	11.55%
Return on Equity	9.60%	4.57%	10.09%	12.19%
Return on Assets	4.21%	1.65%	3.81%	4.52%
Return on Assets	21.03%	20.14%	20.35%	21.35%
ROCE	13.79%	12.58%	16.51%	18.48%

Fig. 14: Asset Utilisation

	2019	2020	2021F	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	4.91	4.68
Sales to total fixed assets	1.60	1.58	1.82	1.82
Equity multiplier	2.28	2.77	2.65	2.70

Fig. 15: Liquidity Ratios

	2019	2020	2021F	2022F
Quick ratio	0.27	0.27	0.28	0.28
Current ratio	0.57	0.44	0.48	0.47
Cash ratio	0.05	0.14	0.09	0.09
Interest Coverage	1.93	0.63	1.63	1.91
Op. Cash Flow Ratio	0.28	0.14	0.20	0.22
Debt/net income	3.46	12.41	4.44	3.94
Debt/operating profit	1.58	3.09	1.87	1.77
Debt to asset	0.15	0.21	0.17	0.18
Debt to equity	0.33	0.57	0.45	0.48
Total liabilities/equity	1.28	1.77	1.65	1.70
Total liab./ Total Assets	0.56	0.64	0.62	0.63
Inventory turnover	2.70	2.93	3.23	3.18
Inventory days	69.81	66.34	57.00	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	2.22	2.76
DiV per share	2.01	0.94	1.50	1.80
NAVPS	20.98	20.16	21.99	22.67
Earnings yield	3.41%	1.59%	3.76%	4.68%
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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