

Nigerian Breweries Kicks Off 2022 with Stellar Performance as Revenue Grows by 30% in Q1-2022

INVESTMENT SUMMARY

Nigerian Breweries opened 2022 with outstanding performance as the company continued to benefit from improved business activities in various industries of the economy (such as accommodation, food services, entertainment, and recreation). In the first quarter of 2022, revenue accelerated by 30.37% to ₦137.77 billion (vs. ₦105.68 billion in the first quarter of 2021). The improvement in the top-line might have been driven by higher prices, increased production volumes, and mix of products during the period. However, improved production volumes, FX scarcity, higher inflation might have resulted in higher cost of sales during the period. Cost of sales increased by 14.11% to ₦72.32 billion in Q1'22 (Q1'21: ₦66.00 billion). Although, the cost of sales increased by 14.11%, the cost-to-sales ratio improved significantly to 54.67% in Q1'22 (Q1'21: 62.46%), and this showed notable progress in the cost-minimization strategy of the management during the period. Meanwhile, the marketing, distribution and administrative expenses rose significantly by 54.95% to ₦39.59 billion in Q1'22 (Q1'21: ₦25.55 billion), driven by higher expenses on advertisement, sales, and distribution. Despite the significant increase in the operating expenses during the period, the EBITDA of the company improved by 35.53% to ₦32.99 billion in Q1'22 (Q1'21: ₦24.34 billion).

The net finance cost of the company fell slightly by 0.50% to ₦2.96 billion in Q1'22 (Q1'21: ₦2.98 billion) due to a notable fall on interest expenses during the period. Consequently, profit before tax rose significantly by 80.32% to ₦20.76 billion in Q1'22 (Q1'21: ₦11.51 billion). The company made a higher provision of ₦7.15 billion for tax in Q1'22 (Q1'21: ₦3.85 billion). Despite the higher tax provision, profit after tax grew by 77.73% to ₦13.61 billion in Q1'22 (vs. ₦7.66 billion in Q1'21), translating to a 12-month trailing earnings per share of ₦2.31. With the recent performance and positive outlook, we upgrade our target price to ₦69.01 (Previous TP: ₦55.19) but downgrade to a **HOLD** recommendation.

Fig. 1: Quarterly results highlights

	1Q2022	4Q2021	1Q2021	Q/q Δ	Y/y Δ
Net Revenue (₦mn)	137,771	128,004	105,676	+7.63%	+30.37%
Operating profit (₦mn)	23,724	16,758	14,490	+41.57%	+63.73%
Net profit (₦mn)	13,614	4,455	7,660	+205.6%	+77.73%

Source: Bloomberg, PAC Research

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Price:

- Current	₦62.80
- Target	₦69.01
Recommendation:	HOLD

* As at Wednesday May 4, 2022

Table 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+25.60%/+14.60%
52-week range	₦39.90 - ₦62.80
30-day Average vol.	3,000,764
Shares Outstanding (mn)	8,075.83
Market Cap. (₦bn)	507.16
EPS (₦) – 12months trailing	2.31
DPS (₦) – FY2021	1.60

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

Tab. 3: Key ratios

	Q1'22	Q1'21
Gross profit margin	45.33%	37.54%
Net profit margin	9.88%	7.25%
Equity multiplier	2.80x	2.64x
Asset turnover	0.26x	0.24x

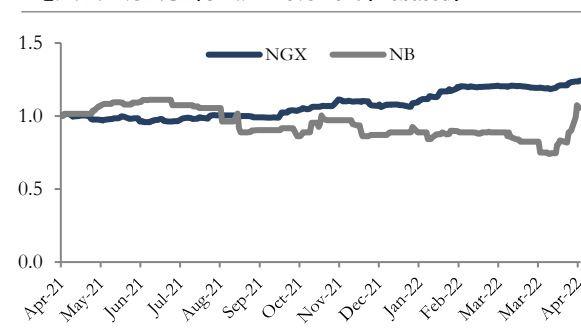
Source: NGX, PAC Research

Table 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E	66.81x	40.02x	16.13x	14.85x
P/B	3.15x	2.95x	2.54x	2.36x
Payout Ratio	100x	100.00x	64.20x	70.94x
EV/EBITDA	8.37	6.30x	4.44x	4.14x
P/S Ratio	1.37	1.05	0.88	0.81
ROE	4.57%	7.37%	15.77%	15.86%
ROA	1.65%	2.61%	5.39%	5.42%
Div. Yield @ Current Price	1.50%	2.55%	3.98%	4.78%

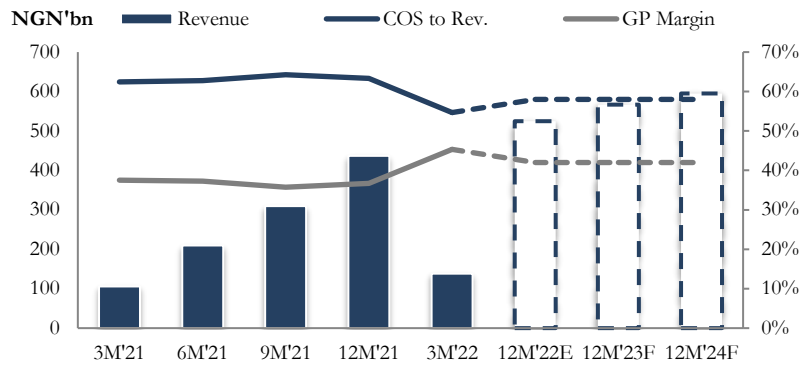
Source: NGX, PAC Research

Fig. 1: NB vs NGX, 52-wk Movement (Rebased)



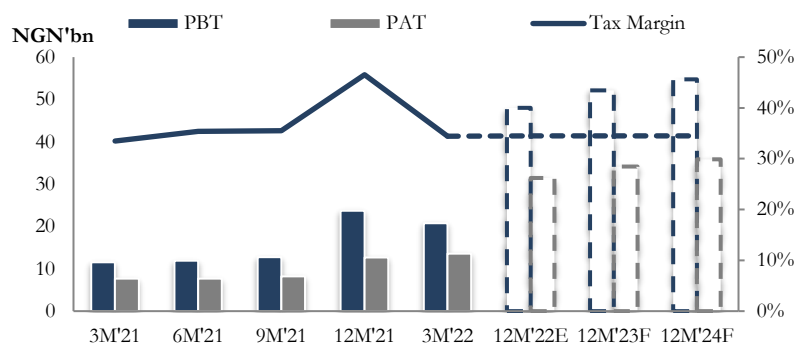
Source: Bloomberg, PAC Research

Fig. 2: Revenue, COS to Rev. and GP Margin – 3M'21 – 12M'24F



Source: NGX, PAC Research

Fig. 3: PBT, PAT and Tax Margin – 3M'21 – 12M'24F



Source: NGX, PAC Research

Balance Sheet remains stout; Expectation of improved dividend payment in FY'22:

Nigerian Breweries maintained a strong financial position in the first quarter of 2022 as the total asset of the company accelerated by 17.04% to ₦521.37 billion (vs. ₦445.45 billion in the first quarter of 2021). The significant increase in the total assets during the period was driven by 28.85% increase in property plant & equipment, 72.68% growth in inventory and 55.52% rise in trade & other receivables. Meanwhile, the total liabilities of the company grew by 21.25% to ₦335.39 billion Q1'22 (vs. ₦276.62 billion in Q1'21), despite the reduction in company's total loans and borrowings during the period. The increase in the total liabilities of the company was mainly attributed to the significant growth in trade and other payables during the period. Trade and other payables grew by 55.64% to ₦226.31 billion in Q1'22 (vs. ₦145.41 billion in Q1'21). However, the total loans and borrowings declined by 9.08% to ₦46.84 billion Q1'22 (vs. ₦51.52 billion in Q1'21), as the company reduced its long-term obligations significantly during the period.

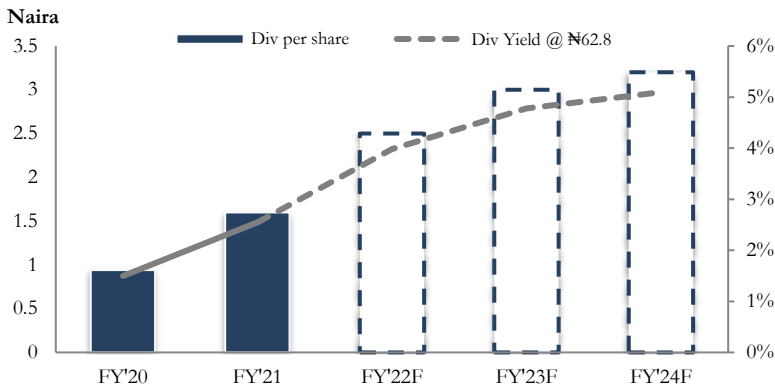
The growth in the total assets mitigated the setback recorded in total liabilities of the company during the period. Consequently, the net assets of the company grew 10.15% to ₦185.98 billion in Q1'22 (₦168.84 billion in Q1'21), translated to a higher net assets per shares of ₦23.26 in Q1'22 (Q1'21: ₦21.11).

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In the coming quarters, we may continue to see significant improvement in operating activities of the company as we expect improved economic activities to be the major driver. In addition, acceptance of new brands (Desperados, Star Radler Red Fruits and Amstel Malta Ultra) in the market will also drive the operating activities going forward. The impressive operating performance is expected to translate to a robust balance sheet in the coming quarters. Hence, we assume that the company will reward the shareholders with improved dividend payment in the full year of 2022.

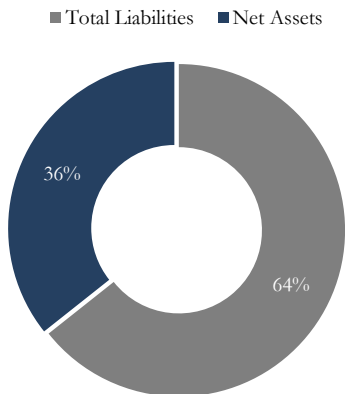
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Fig. 4: Dividend Per Share and Dividend Yield - FY'20 - FY'24F



Source: NGX, PAC Research

Fig. 5: Total Liabilities Vs Net Asset in Q1'22



Source: NGX, PAC Research

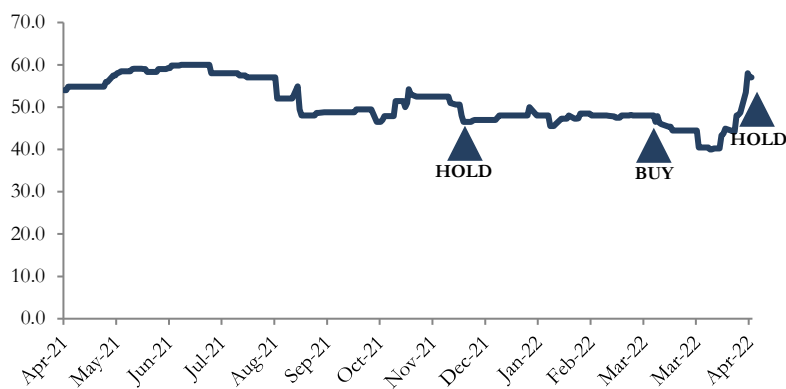
Valuation

Our valuation puts the target price of the stock at ₦69.01, representing an increase of 9.89% from the current price of ₦62.80. In arriving at the target price, we employed dividend discount model and discounted cashflow valuation methodology. Consequently, we downgrade to a **HOLD** 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. 6: Share Price History (Naira)



Source: NGX, PAC Research

Fig. 7: Statement of Profit or Loss, N'mn

	2020	2021	2021E	2022F
Revenue	337,046	437,285	524,742	566,722
Change	4.35%	29.74%	20.00%	8.00%
Cost of sales	218,355	276,872	304,350	328,699
Change	13.87%	26.80%	9.92%	8.00%
Gross profit	118,691	160,413	220,392	238,023
Change	-9.57%	35.15%	37.39%	8.00%
Other income	828	4,627	3,148	3,400
Change	-17.63%	458.73%	-31.95%	8.00%
Marketing & Distr. Exp.	70,702	97,304	125,938	136,013
Change	-9.00%	37.63%	29.43%	8.00%
Administrative expenses	19,212	26,241	31,485	34,003
Change	-0.74%	36.59%	19.98%	8.00%
Results from op. activities	29,605	41,494	66,118	71,407
Change	-15.91%	40.16%	59.34%	8.00%
Net Finance costs	18,028	17,793	18,104	19,269
Change	52.09%	-1.31%	1.74%	6.43%
Profit Before Taxation	11,577	23,701	48,014	52,138
Change	-50.43%	104.73%	102.58%	8.59%
Taxation	4,208	11,029	16,565	17,988
Change	-41.92%	162.09%	50.19%	8.59%
Profit After Taxation	7,368	12,672	31,449	34,151
Change	-54.25%	71.98%	148.18%	8.59%

Fig. 8: Statement of Financial Position, N'mn

	2020	2021	2022F	2023F
PPE	213,412	257,217	309,598	334,366
Intangible assets	95,272	94,334	110,196	119,012
Investments	150	150	157	170
Other receivables	911	1,134	1,417	1,530
Prepayments	0	0	0	0
Inventories	36,087	62,192	73,464	79,341
Trade and other rec.	11,417	26,501	31,485	34,003
Cash and bank Bal.	30,370	16,730	20,990	22,669
Total Assets	445,857	485,522	583,094	629,741
current tax liabilities	11,713	10,624	12,594	13,601
Dividend payable	7,707	10,438	12,594	13,601
Trade and Other pa.	139,201	226,418	272,866	294,695
Loans and Borrowings	39,637	6,831	8,396	9,068
Employee benefits	16,720	10,964	20,990	22,669
Deferred tax liab.	17,854	23,282	26,237	28,336
Total liabilities	284,678	313,610	383,692	414,387
Net Assets	161,179	171,912	199,402	215,354

Fig. 9: Profitability Ratio

	2020	2021	2022F	2022F
Gross profit margin	35.22%	36.68%	42.00%	42.00%
Net Profit Margin	2.19%	2.90%	5.99%	6.03%
operating profit margin	8.78%	9.49%	12.60%	12.60%
Return on Equity	4.57%	7.37%	15.77%	15.86%
Return on Assets	1.65%	2.61%	5.39%	5.42%
Return on Assets	20.14%	18.93%	22.50%	22.40%
ROCE	12.58%	19.48%	25.93%	25.93%

Fig. 10: 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	4.44	4.46
Sales to total fixed assets	1.58	1.70	1.69	1.69
Equity multiplier	2.77	2.82	2.92	2.92

Fig. 11: 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	2.61	2.63
Op. Cash Flow Ratio	0.14	0.15	0.20	0.20
Debt/net income	12.41	2.48	1.20	1.19
Debt/operating profit	3.09	0.76	0.57	0.57
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	2.72	2.15
Inventory days	66.34	63.97	59.63	84.84
Account rec. days	12.36	22.12	21.90	21.90

Fig. 12: Shareholders' Investment Ratios

	2020	2021	2022F	2023F
Earnings per share	1.99	0.94	3.89	4.23
DiV per share	2.01	0.94	2.50	3.00
NAVPS	20.77	19.96	24.69	26.67
Earnings yield	3.18%	1.50%	6.20%	6.73%
FCFPS	4.82	10.31	4.86	4.91

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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