



GUINNESS NIGERIA PLC

A supersized start to the year

In its recently released Q1'22 results, Guinness Nigeria reported a 58% y/y expansion in topline to ₦47.5 billion, surpassing our ₦39.1 billion estimate by 20% and substantially its best Q1 performance so far. What's more, the company reported a PAT of ₦4.4 billion, from a Loss after Tax of ₦0.8 billion in Q1'21 reviving EPS from a loss per share of ₦0.38 in Q1'21 to ₦1.85 in Q1'22.

Why did Guinness do so well?

As at FY'21, the Lager business still contributed the largest to Revenue (37%), although Guinness' de-prioritization on the segment led to a 39% y/y decline in Lager sales for that period. However, in line with the company's strategy and further aided by the revival in social activities, the other segments, especially the Spirits segment, are picking up the slack, and showing sizeable volume growth. Furthermore, in its last earnings call held in August, management revealed that it had taken price increases (high single to double-digit increments) across brands in its Spirits (Mainstream and Premium), Malt and Guinness segments in the Q1'22 period, further muting the impact of excise duties on Sales. Given that Guinness' second quarter is a seasonally strong quarter, volumes are expected to turn out more solid than in Q1. Also, we expect the stronger pricing implemented in Q1 to carry into the next year. Additionally, the company recently launched a dial-a-delivery service in Lagos, which delivers products directly to consumers. Although we do not believe that the impact on the company's numbers is yet significant, we expect this to gain steam, especially among its more premium customers. All in, and adjusting for the topline miss in Q1, we expect Guinness' FY'22 Revenue figure to print at ₦189.3 billion (+18% y/y).

Robust margins expand profit

Cost of sales surged 40% y/y to ₦33.0 billion, steered by volume growth as well as inflationary and FX pressures on raw materials and imported products. Despite this, gross margin grew 9% y/y to 23% doubling gross profit y/y to ₦15.2 billion. Though lower than our expectation, OPEX rose 35% y/y to ₦9.0 billion. Meanwhile the impressive Revenue performance resulted in over 10x growth in EBIT from 0.5 billion in Q1'20. Thus, EBIT margin soared to 9%, the best performance since Q4'17. Whilst interest expense printed lower y/y at ₦170.5 million (Q1'21: ₦580.9 million) driven by loan repayments and in line with our expectations, the company reported further losses on foreign exchange balances amounting to ₦894.8 million. However, net finance expense declined 38% y/y. This brought PBT to ₦5.9 billion (Q1'21: ₦0.3 billion) and PAT to ₦4.0 billion, with net margin improving 12pts y/y to 9%.

For the rest of the year, whilst we expect Guinness to build on its volume growth trajectory, we expect costs to follow suit amid lingering FX impacts on raw and packaging materials. As such, we cautiously estimate that gross margin will mildly decline by 1% y/y to 31%. This, in line with a projected OPEX of ₦36.3 billion (-1% y/y), yields an EBIT margin of 12%. Overall, we estimate a PAT of ₦11.8 billion, a TP of ₦54.37 and place a BUY recommendation on the stock.

Equity Research
29 October 2021

BUY

Target price **₦54.37**

Company Statistics

Current Price (₦)	33.00
Issue Price (₦)	58.00
Market Cap (₦Mn)	72,283
Net Cash (₦Mn)	26,234
Shares Outstanding (Mn)	2,190
NSE	GUINNESS
Bloomberg	GUINNESS.NL

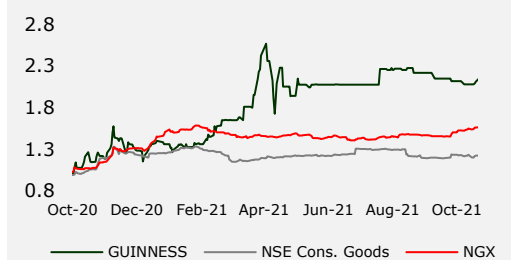
Ownership Structure

Guinness Overseas Limited	50.18%
Atalantaf Limited	7.84%
Others	41.98%

Share Price Performance

30 days	10.00%
YTD	74.00%
365 days	88.00%

Price Movement (Rebased)



Source: NSE, Vetiva Research

Business Description

Guinness Nigeria PLC (GUINNESS) is one of Nigeria's largest brewers. GUINNESS' brand portfolio includes premium Guinness Foreign Extra Stout, mainstream Harp Lager, Malta Guinness and Orijin. Parent company, Diageo owns a 54% stake in GUINNESS. GUINNESS in 2016, acquired exclusive rights to distribute Diageo's International Premium Spirits brands in Nigeria and brands from United Spirits Limited (Diageo's Indian subsidiary).



Income Statement (# Millions)	Q1'22	Q1'21	y/y Change	Vetiva estimate	Variance
Revenue	47,469	30,024	58%	39,413	20%
Gross Profit	15,237	7,011	117%	12,006	27%
Operating Expenses	(8,978)	(6,632)	35%	(9,606)	-7%
EBIT	6,506	586	NM	1,475	NM
Net Finance Expense	(560)	(904)	-38%	(15)	NM
Profit Before Taxation	5,947	(317)	NM	1,460	NM
Profit After Tax	4,044	(842)	NM	993	NM
Gross Margin	32%	23%		30%	
OPEX to Sales	-19%	-22%		-24%	
EBIT Margin	14%	2%		4%	
PAT Margin	9%	-3%		3%	



Income Statement	2020A	2021A	2022E	2023F	2024F	2020A	2021A	2022E	2023F	2024F
Turnover	104,376	160,416	189,291	198,756	204,718	462	485	499	514	530
Cost of Sales	(71,046)	(114,706)	(130,611)	(137,141)	(141,256)	(319)	(334)	(350)	(360)	(371)
Gross Profit	33,330	45,710	58,680	61,614	63,463	143	150	150	154	159
Operating Profit	(13,335)	8,842	22,336	28,734	29,223	54	70	66	69	72
Other income	503	1,030	766	898	832	2	2	2	2	2
EBITDA	10,818	17,628	31,140	38,256	39,331	76	93	91	95	99
Depreciation	10,343	8,482	8,804	9,523	10,108	21	23	25	26	28
EBIT	(12,832)	9,871	23,103	29,632	30,055	56	72	68	71	74
Interest Expense	(4,542)	(4,631)	(2,763)	(4,179)	(5,340)	(7)	(10)	(13)	(13)	(12)
Interest Income	301	529	2,450	3,683	4,420	6	9	11	13	11
PBT	(17,074)	5,770	22,790	29,136	29,136	56	71	66	72	73
Taxation	4,495	(4,514)	(10,939)	(13,985)	(13,985)	(27)	(34)	(32)	(34)	(35)
PAT	(12,579)	1,255	11,851	15,151	15,151	29	37	34	37	38

Balance Sheet	2020A	2021A	2022E	2023F	2024F	2020A	2021A	2022E	2023F	2024F
Fixed Assets	88,919	94,237	102,036	111,352	117,293	249	272	286	300	313
Intangible Assets	309	2	1	1	551	0	0	1	1	1
Stocks	26,426	21,461	28,269	29,683	31,409	69	72	77	84	91
Trade and other debtors	18,719	14,019	9,335	9,802	14,022	23	24	34	42	58
Cash and bank balances	5,271	35,868	37,790	50,610	48,949	92	123	119	105	42
Total Assets	144,146	169,406	181,251	205,265	216,042	442	501	527	541	515
Creditors and Accruals	31,944	61,676	63,337	66,504	69,492	154	162	169	175	178
Bank Overdrafts	310	(0)	2,400	1,430	580	6	3	1	1	(0)
Borrowings	22,801	15,993	18,443	33,443	35,743	45	82	87	80	73
Total liabilities	0	0	0	0	0	0	0	0	0	0
Net Assets	71,107	95,119	101,631	118,828	123,266	248	290	301	298	293

Growth	2021A	2022E	2023F	2024F
Turnover	54%	18%	5%	3%
EBITDA	63%	77%	23%	3%
PBT	-134%	295%	28%	0%
PAT	-110%	844%	28%	0%

Profitability	2020A	2021E	2022F	2023F
Return on Equity	15%	18%	16%	15%
Return on Assets	7%	7%	7%	7%

Margins	2020A	2021E	2022F	2023F
EBITDA margin	16%	19%	19%	18%
EBIT margin	12%	15%	15%	14%
PBT margin	12%	15%	14%	14%
Net Profit margin	6%	8%	7%	7%

Per share data	2020A	2021E	2022F	2023F
EPS	5.41	6.92	6.92	6.98
NAPS	36.35	39.46	42.57	45.71



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Guinness Nigeria	

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