



NIGERIAN BREWERIES PLC

Somber profits despite demand rebound

Equity Research
01 November 2021

SELL

Target price **₦41.51**

Company Statistics

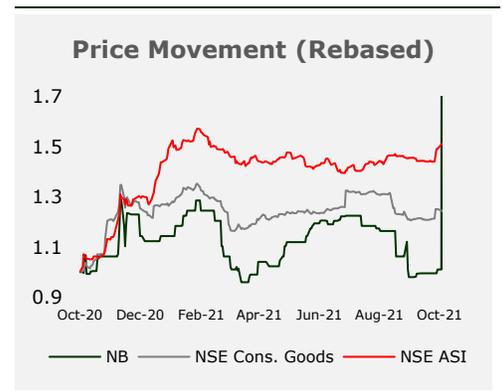
Price (₦)	52.50
Market Cap (₦Mn)	423,981
Enterprise Value (₦Mn)	431,093
Net Debt (₦Mn)	31,920
Shares Outstanding (Mn)	8,075
NSE	NB
Bloomberg	NB.NL
Reuters	NB.LG

Ownership Structure

Heineken N.V.	37.9%
Distilled Trading	15.5%
Others	46.6%

Share Price Performance

30 days	7.07%
YTD	-5.36%
365 days	1.92%



Source: NSE, Vetiva Research

Business Description

Nigerian Breweries Plc (NB) is the largest brewer in Nigeria. Following the merger with Consolidated Breweries effective December 2014, parent company, Heineken maintains a 52% controlling stake in the larger entity. NB dominates Nigeria's brewery market with a c.60% market share and a brand portfolio that includes lager beer, stout beer, non-alcoholic malt drinks, carbonated soft drinks and ready-to-drink brands.

In its recently released 9M'21 Earnings results, NB recorded a 22% y/y growth in Revenue for the Q3'21 period, taking the topline figure up to ₦100.0 billion. Furthermore, for the 9M period, Revenue improved 32% y/y to ₦309.3 billion (Vetiva: ₦303.5 billion). Whilst this was a positive performance, especially given that volumes are still recovering, the company's bottom-line performance was relatively weak. For context, PAT improved only 18% y/y to ₦8.2 billion, propped up by the ₦7.7 billion recorded in Q1'21. Specifically, PAT in Q3'21 contracted 63% y/y to ₦0.5 billion. This places the company's 9M'21 net margin at 2.7% (9M'20: 3.0%). We believe that this performance is unimpressive, especially when we consider the significantly low base from the previous year. Despite this, the company has declared an interim dividend of ₦0.40 per ordinary share, a payout ratio of 40% and a dividend yield of 0.7%

OPEX surge impedes PAT

We had noted a few volume-friendly strategies that the brewer had put in place over the past year, including expanding capacity, introducing a new product and a can re-packaging campaign. However, whilst these strategies have supported Revenues so far, the pass-through to PAT has been severely limited, due to an upsurge in raw material costs and OPEX.

Why are costs surging?

We recall that the company reported a ₦7 billion decline in OPEX in FY'20, due to cost savings from its newly implemented distribution strategy - using the 234-distribution company. However, so far this year, marketing and distribution expenses have shot up 30% y/y to ₦67.9 billion. We believe that the jump in the line item is driven by the company's significant advertising spend, in order to push its newly introduced brands and repackages SKUs (Store-Keeping Units). Additionally, the company's admin expenses have increased 11% y/y to ₦17.6 billion. Lastly, NB reported a 32% swell in employee benefits to ₦38.9 billion (9M'20: ₦29.6 billion). Overall, EBIT margin contracted 2ppts y/y to 8% while EBIT grew 10% y/y to ₦24.7 billion.

Although the company reported strong operating cashflows, these funds have been more committed to deleveraging the company and investing in Capex. Thus, its overall cash balance declined 78% y/y to ₦11.8 billion, limiting finance income to ₦95 million for the 9M period (9M'20: ₦217 million). On the other hand, whilst NB's debt balance is declining, interest expense remained elevated at ₦12.1 billion (9M'20: ₦8.8 billion) amid no reported foreign exchange losses. Hence, net finance costs came in at ₦12.0 billion (+4% y/y).

Outlook for FY'21 dimmed.

We have made slight adjustments to our FY'21 outlook. First, we adjust our Revenue estimates upward to ₦421.3 billion (+25% y/y), in line with the 9M performance. Also, we have revised our OPEX projections to ₦116.7 billion, 30% higher y/y, to reflect the current reality. This crashes our PAT expectation down to ₦9.1 billion (+22% y/y). All in, we revise our target price downward to ₦41.51 per share and rate the stock a SELL.

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Income Statement (₹ Millions)	9M'21	9M'20	y/y Change	Vetiva Estimate	variance
Revenue	309,281	234,085	32%	303,486	2%
Gross Profit	109,317	89,947	22%	111,926	-2%
Operating Expenses	(85,474)	(68,043)	26%	(83,390)	2%
EBIT	24,737	15,046	64%	29,256	-15%
Net Finance Expense	(12,000)	(11,513)	4%	(9,486)	27%
Profit Before Tax	12,737	10,977	16%	19,771	-36%
Profit After Tax	8,223	6,940	18%	13,247	-38%
Gross Margin	35%	38%		37%	
OPEX to Sales	-28%	-29%		-27%	
EBIT Margin	8%	6%		10%	
PAT Margin	3%	3%		4%	



Income Statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Turnover	323,007	337,046	421,308	433,947	446,965	788	822	1,028	1,058	1,090
Cost of Sales	(191,757)	(218,355)	(273,850)	(290,744)	(299,467)	(468)	(533)	(668)	(709)	(730)
Gross Profit	131,251	118,691	147,458	143,203	147,499	320	289	360	349	360
EBITDA	66,608	66,435	70,116	69,093	71,785	162	162	171	169	175
Depreciation	(31,402)	(36,830)	(38,284)	(39,831)	(41,698)	(77)	(90)	(93)	(97)	(102)
Operating Profit	35,206	29,605	31,832	29,261	30,087	86	72	78	71	73
Other income	1,005	828	1,076	1,055	1,034	2	2	3	3	3
EBIT	35,206	29,605	31,832	29,261	30,087	86	72	78	71	73
Interest Expense	(12,115)	(18,275)	(17,705)	(10,194)	(10,609)	(30)	(45)	(43)	(25)	(26)
Interest Income	261	246	247	399	423	1	1	1	1	1
PBT	23,352	11,577	14,374	19,466	19,901	57	28	35	47	49
Taxation	(7,246)	(4,208)	(5,318)	(6,229)	(6,368)	(18)	(10)	(13)	(15)	(16)
PAT	16,106	7,368	9,056	13,237	13,533	39	18	22	32	33

Balance Sheet	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Property, plant & equipment	201,907	213,412	221,179	228,401	243,801	492	521	539	557	595
Intangible Assets	11,743	10,550	9,376	8,226	7,239	29	26	23	20	18
Right of Use Assets	11,074	42,916	44,185	42,290	40,181	27	105	108	103	98
Stocks	38,520	36,087	45,016	47,794	49,227	94	88	110	117	120
Trade and other debtors	21,307	11,417	14,272	14,700	15,141	52	28	35	36	37
Cash and bank balances	6,361	30,370	6,300	18,180	20,468	16	74	15	44	50
Total Assets	382,778	445,857	442,591	461,598	477,691	934	1,087	1,079	1,126	1,165
Creditors and Accruals	102,783	139,201	174,578	185,348	190,909	251	340	426	452	466
Bank Overdrafts	0	0	0	0	0	0	-	-	-	-
Borrowings	16,826	51,811	8,811	13,811	30,811	41	126	21	34	75
Long term loan	38,893	39,637	34,937	24,937	4,937	95	97	85	61	12
Total liabilities	215,028	284,678	272,356	278,126	280,686	524	694	664	678	685
Net Assets	167,750	161,179	170,235	183,472	197,005	409	393	415	447	480

Growth	2020A	2021E	2022F	2023F
Turnover	4%	25%	3%	3%
EBITDA	14%	25%	6%	3%
PBT	-10%	24%	-3%	3%
PAT	0%	6%	-1%	4%

Profitability	2020A	2021E	2022F	2023F
Return on Equity	5%	5%	7%	7%
Return on Assets	2%	2%	3%	3%

Margins	2020A	2021E	2022F	2023F
EBITDA margin	20%	17%	16%	16%
EBIT margin	9%	8%	7%	7%
PBT margin	3%	3%	4%	4%
Net Profit margin	2%	2%	3%	3%

Per share data	2020A	2021E	2022F	2023F
EPS	0.91	1.12	1.64	1.68
NAPS	19.96	21.08	22.72	24.39



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Company	Disclosure
Nigerian Breweries Plc	c



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