

Nigerian Breweries Plc

Nigeria | Equities | Breweries | April 30, 2015

PAC RESEARCH

Expected decline in the prices of grains: A benefit

Revenue increases by 1.4% y/y. In its three months results to March 2015, Nigerian Breweries recorded revenue of ₦69.92billion, up by 1.4% compared with ₦68.98billion in the corresponding period of the previous year. The revenue in the period declined by 2.4% against ₦71.63billion reported in 4Q2014 but increased by 3.5% compared with 8-quarter average of ₦67.54billion. The company introduced a new product – Ace Roots – into the market in the review period; this is part of the efforts of the company to compete in the ready-to-drink (RTD) beverage market. Similarly, Nigerian Breweries introduced “Star Raddler” into the market in the last quarter of the previous year, however the impacts of the new products have not been felt on revenue, it might have effects in the quarters ahead when the products would have gained market acceptance.

Cost of sales increases despite a decline in the average prices of input costs. For the review period, Nigerian Breweries posted cost of sales (COS) of ₦37.43billion, i.e. an increase of 2.4% compared with ₦36.56billion in 1Q2014. Moreover, the period’s COS is higher than ₦31.01billion in 4Q2014 by 20.7%; it is also higher than 8-quarter average of ₦33.41billion by 12.0%. Further analysis revealed that the COS/revenue ratio of 53.3% in 1Q2015 is higher than 43.3% and 53.0% respectively in 4Q2014 and 1Q2014, it is also higher than 8-quarter average of 49.8%.

Furthermore, the average prices of major inputs of the company’s products declined in the global commodities market in the review period relative to the same period in the previous year. For example, the average prices of barley and corn stood at US\$162.68/tonne and US\$210.12/tonne in 1Q2014, down by 18.7% and 17.1% accordingly compared with US\$132.24/tonne and US\$174.21/tonne in the review period.

Fig. 1: Quarterly results highlights

	1Q2015	4Q2014	1Q2014	Q/q Δ	Y/y Δ
Revenue (₦mn)	69,922	71,633	68,976	-2.39%	1.37%
Operating profit (₦mn)	16,369	20,856	15,618	-21.51%	4.81%
Net profit (₦mn)	10,102	12,693	10,060	-20.41%	0.42%

Source: NSE, PAC Research

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Price:

- Current	₦151.18*
- Target	₦137.67
Recommendation:	HOLD

* As at Thursday, April 30, 2015

Fig. 2: Stock data

FYE	December
Price Mov’t: YtD / 52wk	-5.02%/+4.67%
52-week range	₦122.55 - ₦189.00
Average daily vol./val.	2,847,026 / ₦457.554mn
Shares Outstanding (₦mn)	7,929
Market Cap. (₦mn)	1,205.2 (\$7,173mn)
EPS, ₦- 12months trailing	5.37
DPS, ₦- FY2013	4.75
FCF, ₦- FY2013	3.83

Source: Bloomberg, Company’s Annual Reports, PAC Research

Fig. 3: Key ratios

	1Q2015	1Q2014
Gross profit margin	46.48%	46.99%
Net profit margin	14.45%	14.58%
Equity multiplier	2.05x	2.33x
Asset turnover	0.72x	0.96x

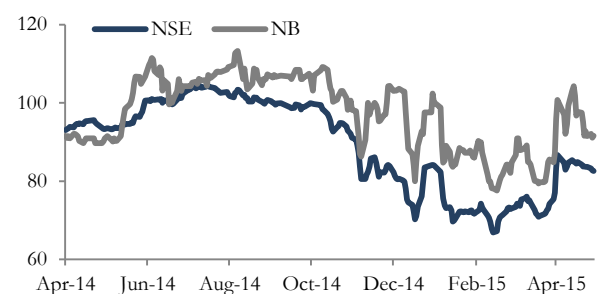
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2014	FY2015E	FY2016F	FY2017F
P/Sales	4.32x	4.50x	4.48x	4.50x
P/E	27.04x	28.14x	28.67x	28.82x
PEG	n/a	n/a	n/a	n/a
EV/EBITDA	12.79x	12.88x	12.94x	3.04x
P/B	6.69x	6.74x	6.59x	6.44x
ROE	24.74%	23.95%	22.97%	22.36%
ROA	12.16%	11.93%	11.67%	11.65%
Div. Yield	3.13%	3.13%	3.29%	3.29%

Source: NSE, PAC Research

Fig. 5: NB vs. NSE, 52-wk movement (rebased)

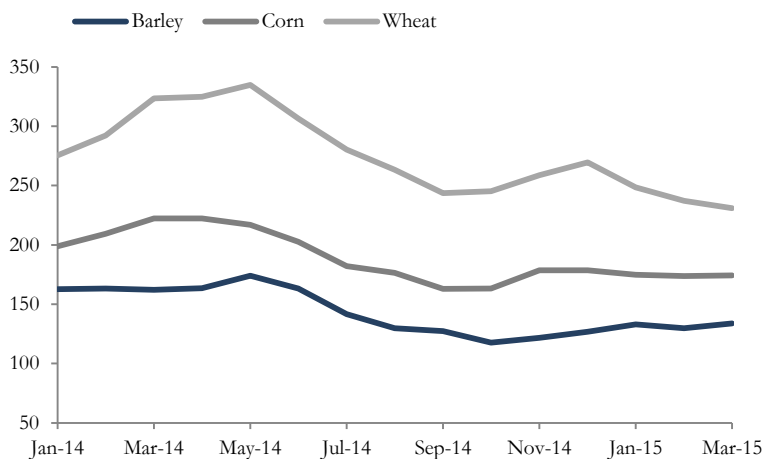


Source: Bloomberg, PAC Research

Similarly, the average prices of wheat declined by 19.6% to US\$288.81/tonne compared with US\$297.12/tonne in 1Q2014 (fig. 6). Therefore, gross profit remains flat at ₦32.50billion with a marginal increase of 0.3% and gross profit margin fell to 46.5% relative to 47.0% in 1Q2014.

However, the Economic Intelligent Unit (EIU) forecasted a 14.9% decline in the average prices of grains in 2015, similarly the average prices of barley was projected to decline by 10.2% to US\$150.0/tonne from US\$167.8/tonnes in 2014. Also, the average prices of corn and wheat were forecasted to drop by 11.6% and 16.7% respectively to US\$182.0/tonne and US\$252.1/tonne compared with US\$205.9/tonnes and US\$302.7/tonne in 2014. From the foregoing, Nigerian Breweries is expected to benefit from the fall in the prices of grains in the global commodity market and the company's profit margin is expected to improve in the quarters ahead.

Fig. 6: Prices of barley, corn and wheat (US\$/tonne)



Source: NSE, PAC Research

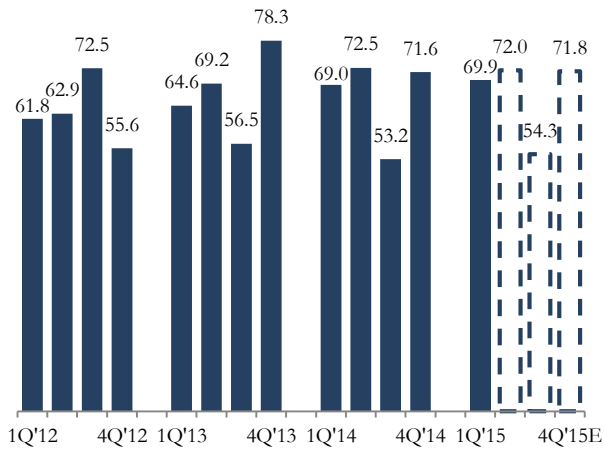
Operating profit improves on the back of a 5.0% y/y decline in operating expenses. In the review period, Nigerian Breweries' operating expenses of ₦16.26billion was down by 5.0% and 19.9% compared with ₦17.11billion and ₦20.30billion respectively in the first and the fourth quarter of 2014. Again, the reported operating expenses for the quarter is lower than 8-quarter average of ₦17.38billion by 25.9%. The inverse movement in the revenue and the operating expenses resulted in a decline in operating expenses/revenue ratio to 23.3% relative to 24.8% in the previous year. Also, it is lower than 28.3% in 4Q2014 and 8-quarter average of 25.9%.

Overall, total cost remains flat at ₦53.68billion and total cost/revenue ratio declined to 76.8% in the review quarter relative to 77.8% in 1Q2014. Consequently, operating profit improves by 4.8% to ₦16.37billion compared with ₦15.62billion in the first quarter to March 2014 and operating profit margin stood at 23.4% compared with 22.6% in 1Q2014.

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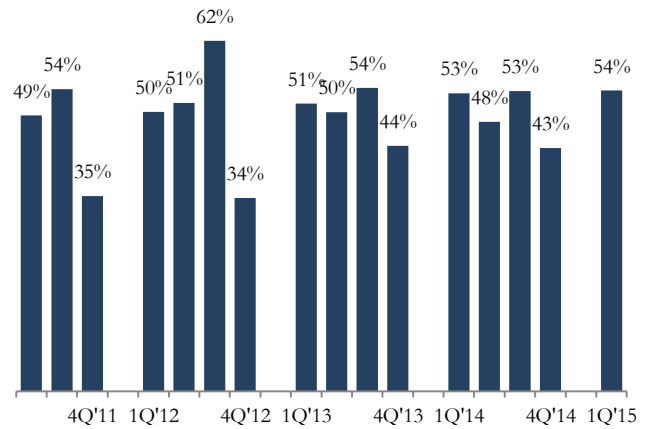
Also, net profit increased marginally by 0.4% to ₦10.10billion compared with ₦10.06billion in 1Q2014 and net profit margin remains flat at 14.5%. Furthermore, worthy of note is an increase of 112.7% in interest expenses to ₦1.93billion compared with ₦ 907million in the corresponding period of the previous year. The increase was partly due to financial liabilities assumed by Nigerian Breweries as a result of the acquisition of Consolidated Breweries in the previous year.

Fig. 7: Quarterly sales revenue (₦billion)



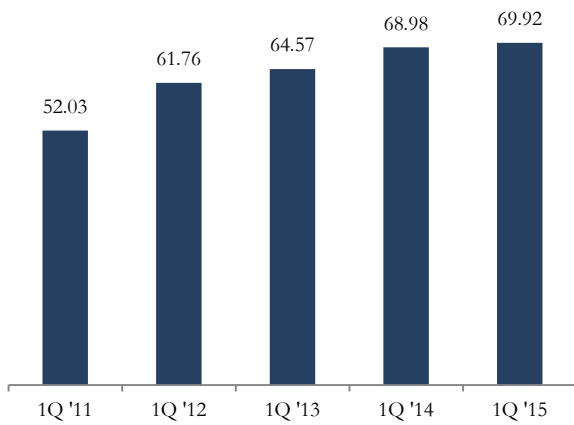
Source: NSE, PAC Research

Fig. 8: Quarterly COS/revenue ratio



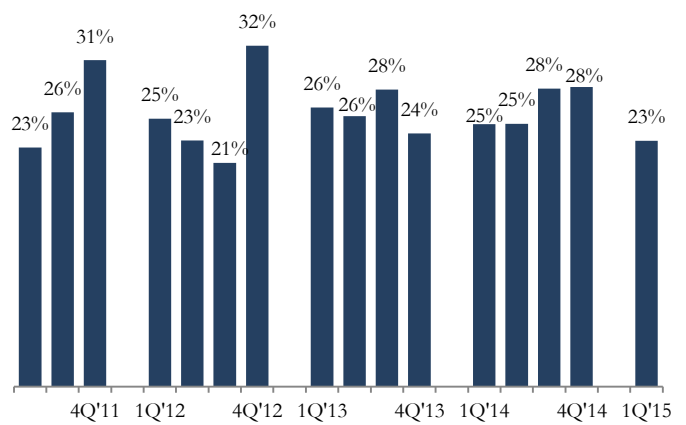
Source: NSE, PAC Research

Fig. 9: First quarter sales revenue (₦billion)



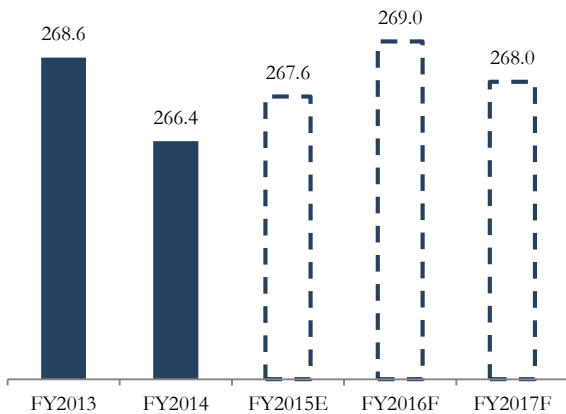
Source: NSE, PAC Research

Fig. 10: Quarterly operating expenses/revenue ratio



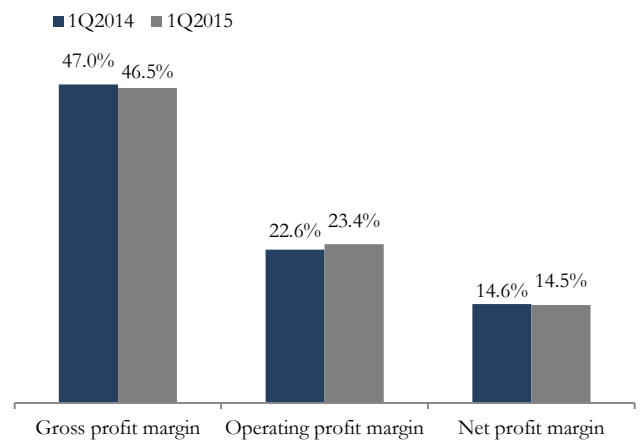
Source: NSE, PAC Research

Fig. 11: Annual sales revenue (₦billion)



Source: NSE, PAC Research

Fig. 12: Profit margins



Source: NSE, PAC Research

Our Valuation puts the target price of the stock of Nigerian Breweries Plc at ₦137.67. In arriving at the target price, we employed multiples of price/earnings, price/sales, price/book, and EV/sales. We also employed the discounted cashflow valuation methodology. Consequently, we recommend a HOLD on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the challenging operating environment in Nigeria, our outlook on the movement in the prices of commodities in the global market - especially the price of grains - the strength of consumer spending, insecurity challenges in the northern part of Nigeria, demographic factor of the country, and the intensity of competition in the market.

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Fig. 13: Statement of Profit or Loss, ₦mn

	FY2014	FY2015E	FY2016F	FY2017F
Revenue	266,372	267,571	269,042	267,966
Change		0.45%	0.55%	-0.40%
Cost of sales	130,788	131,110	132,638	132,375
Change		0.25%	1.17%	-0.20%
Gross profit	135,584	136,461	136,404	135,591
Change		0.65%	-0.04%	-0.06%
Operating expenses	70,441	69,568	70,489	71,011
Change		-1.24%	1.32%	0.74%
Other operating income	1,718	1,752	1,665	1,815
Change		2.00%	-5.00%	9.00%
Operating profit	66,861	68,645	67,580	66,394
Change		2.67%	-1.55%	-1.75%
Interest income	697	558	552	690
Change		-20.00%	-1.00%	25.00%
Interest expenses	6,096	7,315	7,388	6,650
Change		20.00%	1.00%	-10.00%
Profit before tax	61,462	61,887	60,744	60,435
Change		0.69%	-1.85%	-0.51%
Income tax	18,942	19,061	18,709	18,614
Change		0.63%	-1.85%	-0.51%
Profit for the year	42,520	42,826	42,035	41,821
Change		0.72%	-1.85%	-0.51%

Fig. 14: Statement of Financial Position, ₦mn

	FY2014	FY2015E	FY2016F	FY2017F
Non-Current Assets				
Property, plant & equipment	193,570	200,345	204,352	205,374
Intangible assets	97,969	98,949	100,928	100,928
Other non-current assets	1,208	1,331	1,065	1,140
Total non-current assets	292,747	300,625	306,344	307,441
Current Assets				
Inventories	28,478	27,908	27,350	26,530
Trade & other receivables	22,753	24,801	20,585	18,526
Cash & cash equivalents	5,699	5,738	5,947	6,439
Total Current assets	56,930	58,447	53,882	51,495
Total assets	349,677	359,072	360,226	358,936
Equity				
Equity	171,883	178,785	183,005	187,011
Non-Current Liabilities				
Deferred taxation	27,834	28,391	29,242	28,658
Employee benefits	10,736	10,199	9,179	9,271
Loans and borrowings	24,670	20,229	18,611	14,517
Total non-current fin. liab.	63,240	58,819	57,033	52,445
Current Liabilities				
Trade & other payables	83,816	86,330	84,604	83,758
Current tax liabilities	22,945	24,092	23,610	23,374
Dividend payable	7,563	10,546	11,101	11,101
Total current liabilities	114,554	121,191	119,549	118,483
Total equity and liabilities	349,677	358,796	359,586	357,939

Fig. 15: Profitability & return

	FY2014	FY2015E	FY2016F	FY2017F
Gross profit margin	50.90%	51.00%	50.70%	50.60%
Operating profit margin	25.10%	25.65%	25.12%	24.78%
Net profit margin	15.96%	16.01%	15.62%	15.61%
ROCE	34.02%	34.49%	33.52%	32.95%
ROE	24.74%	23.95%	22.97%	22.36%
ROA	12.16%	11.93%	11.67%	11.65%

Source: Company's annual reports, PAC Research

Fig. 16: DuPont Analysis

	FY2014	FY2015E	FY2016F	FY2017F
Total assets turnover	1.36x	1.34x	1.33x	1.33x
Operating profit margin	25.10%	25.65%	25.12%	24.78%
Equity multiplier	2.03x	2.01x	1.97x	1.92x
ROCE	34.02%	34.49%	33.52%	32.95%

Fig. 17: Efficiency ratios

	FY2014	FY2015E	FY2016F	FY2017F
Fixed assets turnover	0.91x	0.89x	0.88x	0.87x
Current assets turnover	4.68x	4.58x	4.99x	5.20x
Total assets turnover	1.36x	1.34x	1.33x	1.33x
Inventory turnover	5.34x	4.65	4.80x	4.91x
Receivables turnover	27.56x	23.17x	22.08x	21.32x
Payables turnover	2.79x	2.48x	2.37x	2.26x
Days inventory outstanding	68	78	76	74
Days collection outstanding	13	16	17	17
Days payable outstanding	131	147	154	161
Operating cycle (days)	-49	-53	-62	-70

Fig. 18: Liquidity ratios

	FY2014	FY2015E	FY2016F	FY2017F
Working capital (₦millions)	-57,624	-62,744	-65,667	-66,988
Current ratio	0.50	0.48	0.45	0.43
Quick ratio	0.25	0.25	0.22	0.21
Cash ratio	0.05	0.05	0.05	0.05

Fig. 19: Long-term solvency & stability ratios

	FY2014	FY2015E	FY2016F	FY2017F
Gearing	12.55%	10.16%	9.23%	7.20%
Equity multiplier	2.03x	2.01x	1.97x	1.92x
Total debt-to-equity	1.03x	1.07x	0.96x	0.91x
Total debt-to-assets	50.85%	50.13%	49.02%	47.62%
Proprietary	49.15%	49.79%	50.80%	52.10%
Interest coverage	18.47x	15.90x	15.50x	16.92x
Cash coverage	16.82x	14.38x	14.50x	14.17x

Fig. 20: Shareholders' investment ratios

	FY2014	FY2015E	FY2016F	FY2017F
EPS, ₦	5.62	5.40	5.30	5.27
DPS, ₦	4.75	4.75	5.00	5.00
Payout	84.49%	87.94%	94.31%	94.80%
FCFPS, ₦	3.83	3.93	4.36	4.49

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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