

Nigerian Breweries Plc

Nigeria | Equities | Breweries | July 16, 2015

PAC RESEARCH

New products bolsters revenue growth

2Q'2015 sales revenue improves by 12.7% y/y. In the six months period to June 2015, Nigerian Breweries recorded revenue of ₦151.67billion, up by 7.2% compared with ₦141.50billion in the previous year. Similarly, the revenue of ₦81.75billion reported in 2Q2015 was higher by 16.9% and 12.7% compared with ₦69.92billion and ₦72.52billion respectively in 1Q2015 and 2Q2014. Also, the revenue in the latest quarter is higher than our estimate of ₦72.02billion by 13.5% and higher than 8-quarter average of ₦69.11billion by 18.3%. In our view, the improvement in revenue in the review period was a result of success recorded by the new products the company launched recently; as part of its efforts to compete in the “Ready-to-Drink” (RTD) beverage market, Nigerian Breweries introduced “Ace Roots” and “Star Raddler” into the Nigeria’s beverage market in the last quarter of the previous year.

Increase in cost of sales impacts gross profit margin. For the review period, the company’s cost of sales (COS) of ₦81.90billion increased by 14.8% compared with ₦71.35billion in 2014. The disproportional increase in COS and revenue resulted in a higher COS/revenue ratio of 54.0% relative to 50.4% in the corresponding period of 2014. On a quarterly basis, Nigerian Breweries posted COS of ₦44.48billion in the second quarter to June 2015, up by 18.8% compared with ₦37.43billion in the first quarter to March 2015. Also, the latest quarter’s COS is higher than ₦34.79billion in 2Q2014 and 8-quarter average of ₦34.67billion by 48.0% and 50.4% accordingly. Furthermore, our analysis revealed that COS/revenue ratio of 54.4% in 2Q2015 is higher than 53.5% and 48.0% in 1Q2015 and 2Q2014 in that order; also it is higher than 8-quarter average of 50.4%. On the contrary, the average prices of grains which are the major input in the production of both alcoholic and non-alcoholic beverages declined in the review period compared with the corresponding period in 2014.

Fig. 1: Quarterly results highlights

	2Q2015	1Q2015	2Q2014	Q/q Δ	Y/y Δ
Revenue (₦mn)	81,751	69,922	72,520	16.92%	12.73%
Operating profit (₦mn)	17,543	16,369	20,048	7.17%	-12.50%
Net profit (₦mn)	11,377	10,102	13,812	12.62%	-17.63%

Source: NSE, PAC Research

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Price:

- Current	₦128.60*
- Target	₦135.46
Recommendation:	HOLD

* As at Wednesday, July 15, 2015

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-22.20%/-27.26%
52-week range	₦128.00 - ₦186.90
Average daily vol./val.	2,733,811/₦428.973mn
Shares Outstanding (₦mn)	7,929
Market Cap. (₦mn)	1,019.7 (\$4,433mn)
EPS, ₦- 12months trailing	5.06
DPS, ₦- FY2013	4.75
FCF, ₦- FY2013	3.83

Source: Bloomberg, Company's annual reports and accounts, PAC Research

Fig. 3: Key ratios

	1H2015	1H2014
Gross profit margin	46.00%	49.58%
Net profit margin	14.16%	16.87%
Equity multiplier	2.17x	2.60x
Asset turnover	0.77x	1.04x

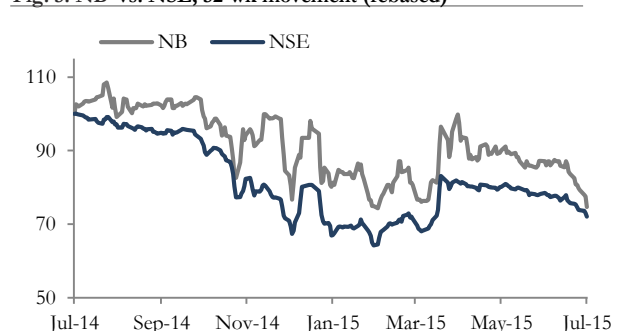
Source: NSE, PAC Research

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)



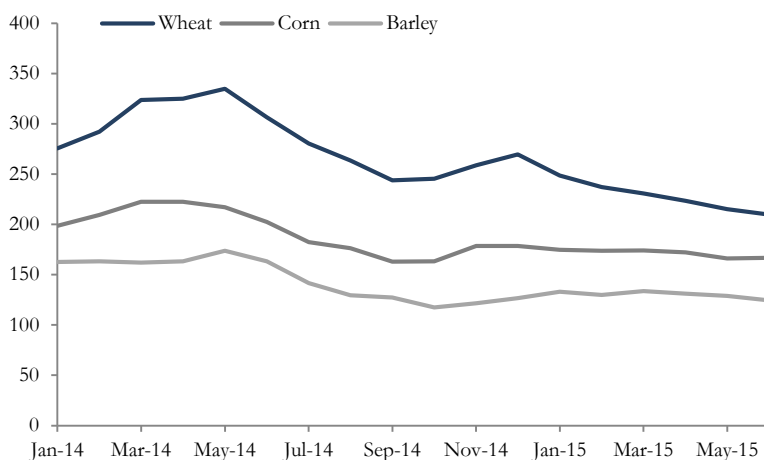
Source: Bloomberg, PAC Research

For example, the average prices of wheat and corn declined by 26.5% and 19.2% respectively to US\$227.47/tonne and US\$171.29/tonne in the review period compared with the average prices of US\$309.59/tonne and US\$212.04/tonne in the first half year of 2014. Similarly, the average prices of barley decline by 21.0% to US\$130.17/tonne in 1H15 against US\$221.72/tonne in the previous year, although the average prices of sorghum increased by 6.6% to US\$236.41/tonne in the same period.

However, the Economic Intelligence Unit (EIU) forecasted a decline of 17.7% y/y in the average prices of grains in the global commodity market in 2015. Specifically, the EIU forecasted a decline of 19.2% and 14.8% in the average prices of wheat and corn respectively in 2015 to US\$244.60/tonne and US\$175.50/tonne from US\$302.70/tonne and US\$206.00/tonne in 2014. Also, the average prices of barely and sorghum was projected to decline by 10.6% and 10.7% accordingly to US\$150.00/tonne and US\$185.00/tonne compared with US\$167.80/tonne and US\$207.20/tonne in the previous year. Consequently, gross profit declined marginally by 0.5% to N69.77billion y/y against N70.15billion and gross profit margin fell to 46.0% in the review period relative to 49.6% in 2014.

“ However, the Economic Intelligence Unit (EIU) forecasted a decline of 17.7% y/y in the average prices of grains in the global commodity market in 2015. ”

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



Source: NSE, PAC Research

Operating profit margin declines despite a lower increase in operating expenses. For the six months to June 2015, Nigerian breweries recorded operating expenses of N36.13billion, up by 2.8% compared with N35.14billion in the previous year. The lower increase in the operating expenses relative to revenue led to a lower operating expenses/revenue ratio of 23.8% relative to 24.8% in 2014. On a quarterly basis, the company's operating expenses of N19.87billion in 2Q2015 was higher than N16.28billion and N18.02billion by 22.2% and 23.3% respectively in 1Q2015 and 2Q2014; it is also higher than 8-quarter average of N17.65billion by 12.6%.

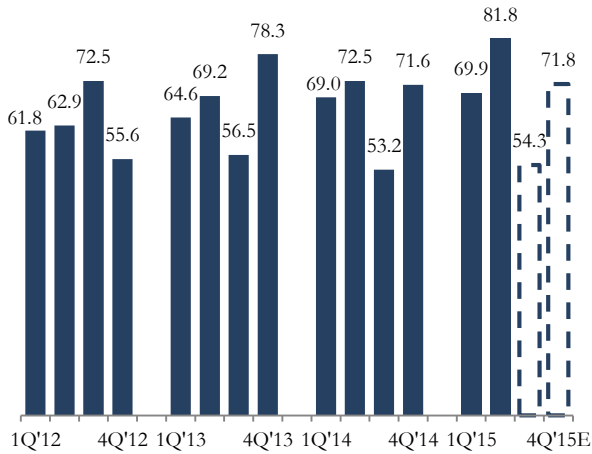
Moreover, operating expenses/revenue ratio of 24.3% in 2Q2015 was higher than 23.3% in 1Q2015 but lower than 24.9% in 2Q2014 and 8-quarter average of 25.7%. Overall, total costs moved up by 10.8% to ₦118.03billion compared with ₦106.49billion in 2014, hence total costs/revenue ratio increased to 77.8% relative to 75.3% in the previous year. Therefore, operating profit declined by 4.9% y/y to ₦33.91billion compared with ₦35.67billion and operating profit margin dropped to 22.4% in the period relative to 25.2% in the previous year. Worthy of note, is an item “Other Income” of ₦269million, down by 59.0% compared with ₦656million in 2014. Also, interest expenses moved up by 63.7% to ₦2.92billion against ₦1.78billion in 2014 as a result of 102.5% increase in total borrowings to ₦44.55billion compared with ₦22.00billion in the corresponding period of the previous year. Consequently, net profit fell by 10.0% to ₦21.48billion compared with ₦23.87billion in 2014 and net profit margin stood at 14.2% relative to 16.9% in the previous period.

Our Valuation puts the target price of the stock of Nigerian Breweries Plc at ₦135.46. 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 maintained our HOLD recommendation 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.

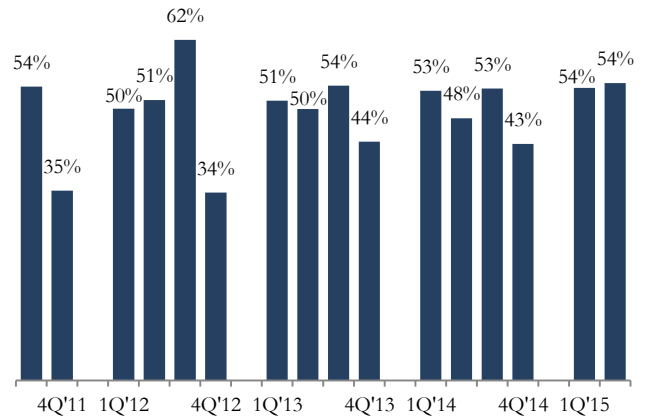
*“ Our Valuation
puts the target price of
the stock of Nigerian
Breweries Plc at
₦135.46. ”*

Fig. 7: Quarterly sales revenue (₦billion)



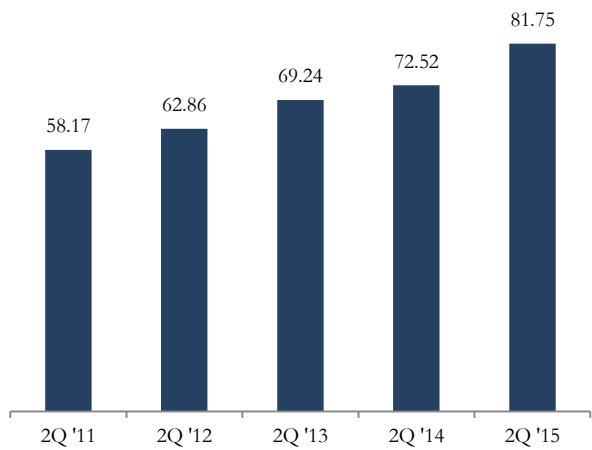
Source: NSE, PAC Research

Fig. 8: Quarterly COS/revenue ratio



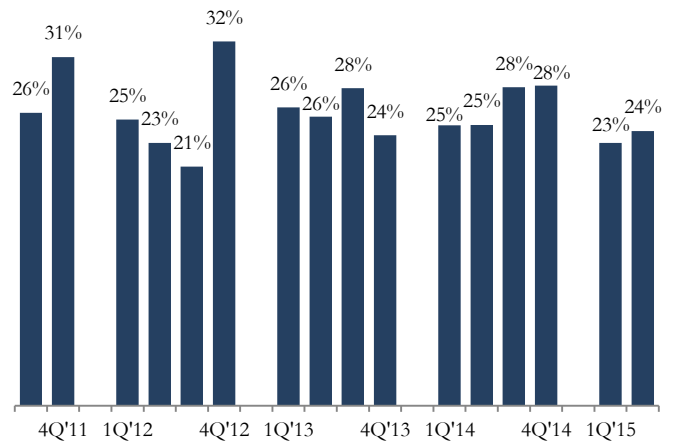
Source: NSE, PAC Research

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



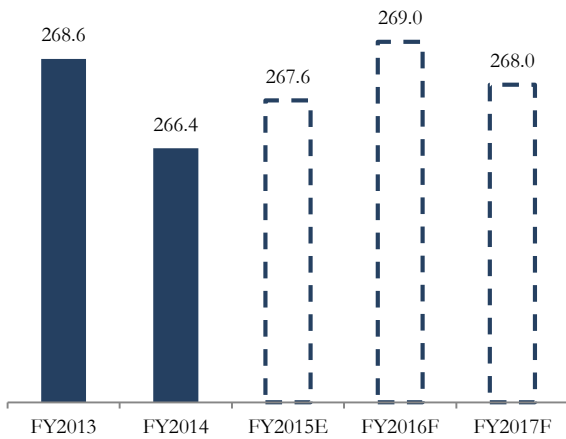
Source: NSE, PAC Research

Fig. 10: Quarterly operating expenses/revenue ratio



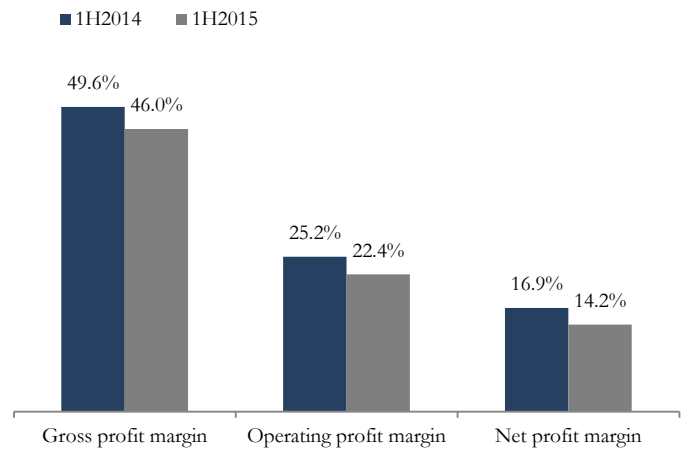
Source: NSE, PAC Research

Fig. 11: Annual sales revenue (₦billion)



Source: NSE, PAC Research

Fig. 12: Profit margins



Source: NSE, PAC Research

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 and accounts, 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 (₦million)	-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 and accounts, 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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