

Nigerian Breweries Plc

Performance Driven by Cost Leadership, Market Leadership and Continue Innovation



November 14, 2018

Q3 Ended September 30, 2018

Executive Summary

- The planned focus and execution of its twin agenda of costs leadership and market leadership supported by innovation should help improve its results in coming years
- However, the difficult business environment and stiff competition had an adverse impact on NB profit margins as at Q3, September 2018
- Increase in cost of operations, weak consumers' purchasing power and the new tariff regime are some of the factors that affected the performance of the company during the period
- The introduction of supplier finance scheme with benefits of extended payment terms and quicker access to cash for suppliers should help to boost sales going forward
- The company also plans to continue the use of commercial papers to raise short term funds to meet its financing needs
- The company recently contracted a long-term loan to finance the purchase of plant and machinery for the expansion of the company's breweries
- We estimate a dividend per share of N3.46 for the FY 2018
- **Our fair value of the shares of NB is N133.76**

Table 1:	BUY
Current Price	82.50
Fair Value	133.76
Price Target	110.00
Horizon	One Year

Macroeconomic environment, stiff competition and the new tariff regime in the industry affected the performance of the company in Q3 2018.

The T/O decreased by 5.63% to N254.99bn in Q3 2018.

There was a decline in the company's profit margins in Q3 2018, compared with Q3 2017.

1.0 Q3 2018 Performance Analysis:

The challenging business environment, coupled with increased competition from incumbent operator Guinness Nigeria and the new industry challenger, Anheuser-Busch InBev (AB InBev), affected the performance of Nigerian Breweries (NB) in recent years. The company's performance in Q3 2018 slowed down compared with the corresponding period in 2017. Specifically, increase in cost of operations, weak consumers' purchasing power, substantial one-off cost due to rightsizing exercise and new tariff regime are major factors that affected the performance of the company during the period.

The unaudited Q3 2018 result for the period ended September 2018 shows that Turnover (T/O) decreased by 5.63% to N255bn, compared with N270.21bn in 2017. The cost of sales decreased by 3.01% to N143.35bn from N147.81bn in Q3 2017. The cost of sales as a percentage of T/O increased to 56.22% from 54.70% as at Q3 2017. The administrative, selling and distribution expenses increased by 1.53% to N67.63bn. These expenses as a percentage of turnover increased to 26.52% in Q3 2018 from 24.65% in Q3 2017.

The other operating income stood at N658.31mn as at Q3 2018, representing a decrease of 67.83%, compared with N2.05bn in Q3 2017. All efforts that our analyst made to speak with the company before this report was were not successful. The company did not speak with our analysts before this report was published. Thus we were not able to ascertain the reasons for the drop in the other income. The company was able to lower its interest expenses because of the drop in interest rate in the economy. Nigerian Breweries recorded a finance cost of N5.51bn in Q3 2018 a 31.12% decrease from N7.99bn in Q3 2017 while finance income increased by 91.33% to N238.56mn. The Profit Before Tax (PBT) fell to N22.47bn, a decrease of 34.72% from N34.43bn in 2017. The tax provision also fell by 26.23% to N7.68bn, from N10.42bn. The Profit After Tax (PAT) was N14.79bn in Q3 2018, from N24.01bn in 2017, representing a decline of 38.4%. The company's profit margins declined in Q3 2018, compared with Q3 2017.

Table 2: Financial Performance (N'bn)

	Q3 2018	Q3 2017	Change
T/O	254.99	270.21	(5.63%)
EBIT	44.67	57.84	(22.76%)
PBT	22.47	34.43	(34.72%)
PAT	14.79	24.01	(38.40%)
GP* Margin	43.78%	45.30%	(1.52%)
EBIT Margin	17.52%	21.40%	(3.89%)
PBT Margin	8.81%	12.74%	(3.93%)
PAT Margin	5.80%	8.89%	(3.09%)

*GP- Gross Profit

Source: Company Account – 2018 and FSDH Research Analysis

The Gross Profit margin decreased to 43.78% in Q3 2018 while the Earnings Before Interest and Tax margin (EBIT) declined to 17.52% from 21.40% in Q3 2017. The PBT margin decreased to 8.81% in Q3 2018 from 12.74% as at Q3 2017. The PAT margin dropped to 5.80% in Q3 2018, from 8.89% in the corresponding period of 2017. This result also indicates that the percentage of T/O, PBT, and PAT in the Q3 2018 to the Audited T/O, PBT and PAT for the period ended December 2017 are: 74.01%, 48.20% and 44.75%, respectively. **Given the current run rate and comparing it with historical trends, the company's turnover may remain flat compared with the performance in FY 2017 while the profitability may drop.**

Given the run rate, the company's turnover may remain flat compared to its previous year's performance.

Table 3: Quarterly Result Highlights (N'bn)

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Turnover	71.31	89.69	82.97	89.87	73.68
PBT	(5.07)	12.30	15.25	12.20	0.37
PAT	(3.65)	8.23	10.20	9.04	0.26

Source: Company Unaudited & Annual Account – 2018 & 2017 and FSDH Research Analysis

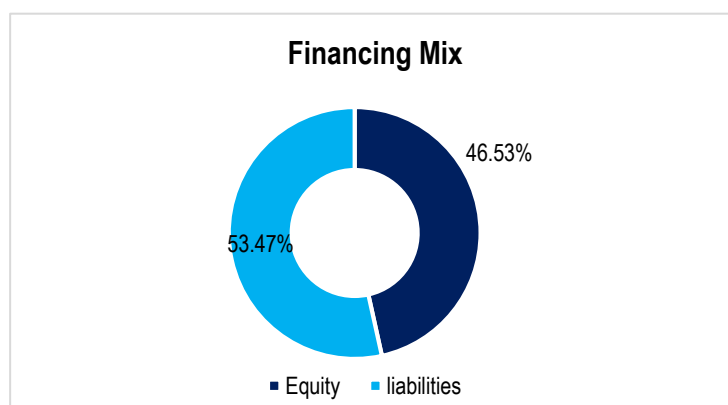
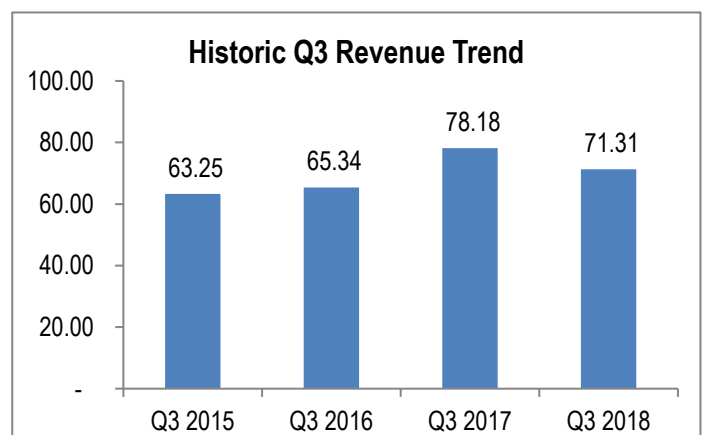
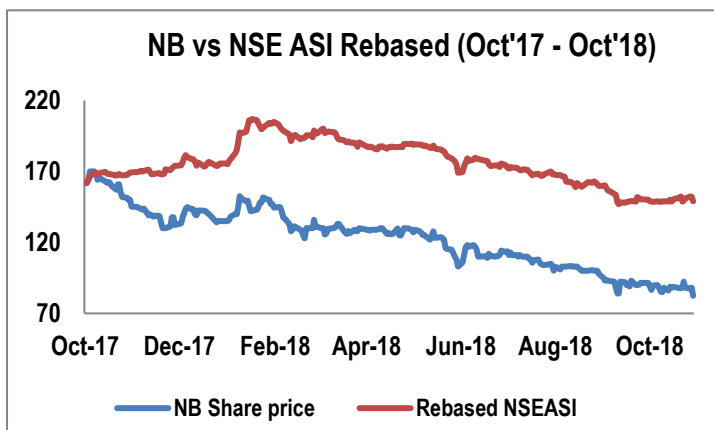
A cursory look at the balance sheet position as at Q3 2018 compared with FY December 2017 shows that the company increased its borrowing in order to finance its working capital requirement. We also noticed appreciable increase in trade and other receivables of the company. This may be a strategy to incentivize its distributors to carry more of its goods. We however, note that the company also relied on credits from customers, this reduced its borrowing needs. The total fixed assets decreased by 2.75% to N286.63bn in Q3 2018 from N294.74bn in FY 2017. The inventory decreased by 18.87% to N34.66bn from N42.73bn in FY 2017. The cash and bank balances recorded a decrease of 40.67% to N9.41bn in Q3 2018 from N15.87bn in FY 2017.

The company relied on credits from customers, this reduced its borrowing needs.

Trade and other payables constituted mainly of the short-term liabilities.

The trade debtors and other receivables increased in Q3 2018 by 31.19% to N26.74bn, from N20.38bn in FY 2017. The trade creditors and other payables decreased by 29.83% to N89.78bn from N127.95bn as at FY 2017. The working capital improved to negative N52.53bn in Q3 2018 from a negative N68.56bn in FY 2017, while net assets for the period decreased by 5.75% to stand at N168.04bn, from N178.30bn as at FY 2017. The company relied heavily on free credits from suppliers and distributors to finance its operations.

The total assets of the company which stood at N361.16bn as at Q3 2018 was financed by a mix of equities and liabilities in the ratio of 46.53% and 53.47% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N127.06bn, accounting for 65.79% of the total liabilities. The short-term liabilities constituted mainly of trade and other payables. The long-term liabilities stood at N66.06bn accounting for 34.21% of the total liabilities. Long-term liabilities constituted mainly of loans and borrowings, and deferred tax liabilities which stood at N27.72bn and N24.43bn in Q3 2018 respectively.



1.1 FY 2017 Performance Analysis:

Our analysis of the income statement of NB in the FY 2017 shows that the Gross Profit (GP) increased marginally over the 2016 position. The marginal growth in the GP was on account of the faster growth in the cost of sales than the revenue. While the devaluation of the currency and high inflation rate increased the cost of sales, the weak macroeconomic environment and the stiff competition in the industry limited the growth of the company. NB could not shift the entire increase in the cost of goods sold to the consumers in the form of increase in price.

The audited Full Year (FY) 2017 result for the period ended December 2017 shows that Turnover T/O increased by 9.82% to N344.56bn, compared with N313.74bn in 2016. The cost of sales also increased by 12.79% to N201.01bn from N178.22bn in FY 2016 due to high inflation and a weaker naira. The cost of sales as a percentage of T/O decreased marginally to 58.33% from 58.80% as at FY 2016. The administrative, selling and distribution expenses increased by 1.80% to N55.96bn. These expenses as a percentage of turnover decreased to 16.24% in FY 2017 from 17.52% in FY 2016.

The other operating income stood at N2.22bn as at FY 2017, representing an increase of 260.36%, compared with N615.66mn in FY 2016. This increase was as a result of an income from insurance claim. Income from insurance claim stood at N1.57bn during the year 2017. The company recorded financial charges of N10.66bn in FY 2017, a 21.85% decrease from N13.65bn in 2016. **The financial charges include a net foreign exchange loss of N5.03bn a decrease from the loss of N7.55bn in 2016** as FX became more available and stable in the second half of 2017.

The T/O increased by 9.82% to N344.56bn in FY 2017.

The gross profit and EBIT margins dropped in FY 2017, from the levels attained in FY 2016.

Table 4: Profitability Analysis (N'bn)

	FY 2017	FY 2016	FY 2015	FY 2014
T/O	344.56	313.74	293.91	266.37
EBIT	57.12	52.90	62.23	66.86
PBT	46.63	39.67	54.51	61.46
PAT	33.05	28.42	38.06	42.52
GP Margin	41.66%	43.20%	49.05%	50.90%
EBIT Margin	16.58%	16.86%	21.17%	25.10%
PBT Margin	13.53%	12.65%	18.55%	23.07%
PAT Margin	9.59%	9.06%	12.95%	15.96%

Source: Company Annual Account – 2017 and FSDH Research Analysis

The Profit Before Tax (PBT) increased to N46.63bn, an increase of 17.53% from N39.67bn in 2016. The tax provision also increased by 20.64% to N13.58bn, from N11.26bn. The Profit After Tax (PAT) was N33.05bn in FY 2017, from N28.42bn in 2016, representing an increase of 16.30%. This was a reflection of the challenges the company faced as the cost of doing business increased.

1.2 Analysis of Cash Flow Statement:

The company's cash generation ability increased in 2017 over 2016.

The company's cash generation ability increased in 2017 over 2016. Thus it was able to finance some of its expansion, pay down on its debt obligations and pay dividend from internally generated cash flow. NB generated a net increase in cash flow of N4.11bn in the year 2017 compared with a net increase in cash flow of N25.39bn it generated in 2016. The acquisition of property, plant and equipment, the payment of dividend and the repayment of loans and borrowings significantly depleted the cash flows of the company. The cash profit generated from the core operations increased to N88.04bn in 2017 from N74.59bn in 2016. The ratio of the cash profit generated from core operating activities to the revenue also increased to 25.55% in 2017 from 23.77% in 2016. This means that more of its revenue translated into cash in 2017 than in 2016.

The company generated an increase in cash profit during the year.

The cash flow generated from operating activities increased to N103.79bn in 2017 from N98.16bn in 2016 while the net cash generated after tax increased from N70.15bn to N72.05bn. The net cash generated from operations was sufficient to cover the investment needs of the company.

N'bn	2017	2016
Cash Profit From Core Operations	88.04	74.59
Changes In Working Capital	15.75	23.51
Cash From Operating Activities	103.79	98.16
Income Tax Paid	15.59	15.05
Net Cash From Operating	72.05	70.15
Net Cash Used In Investing	(32.07)	(18.81)
Net Cash Generated by/(Used in) Financing Activities	(35.88)	(25.95)
Cash Generated for the Year	4.11	25.39
Ratio of Cash Flow from Core Operations to Revenue	25.55%	23.77%
Ratio of Net Cash from Operation to PPE Investment	224.31%	365.13%

Source: Company Annual Account –2017 and FSDH Research Analysis

2.0 Analysis of Return on Equity

The ROE of the company increased from 17.14% in 2016 to 18.54% in 2017.

The Return on Equity (ROE) of the company increased from 17.14% in 2016 to 18.54% in 2017. Using the DuPont analysis, we linked the rise in the ROE to the increase in the profit margin and asset turnover.

		2017	2016
Profitability	PAT	33.05	28.42
	Turnover	344.56	313.74
	Profit Margin	10%	9%
Operating Efficiency	Turnover	344.56	313.74
	Total Assets	382.23	367.15
	Asset Turnover (x)	0.90	0.85
Financial Leverage	Total Assets	382.23	367.15
	Equity	178.21	165.83
	Equity Multiplier (x)	2.14	2.21
Return on Equity (ROE)		18.54%	17.14%

Source: Company Annual Account – 2017 and FSDH Research Analysis

3.0 Commercial Paper Programme:

As part of its strategy to finance short-term capital requirements, NB established a N100bn Commercial Paper (CP) Issuance programme in 2018. The programme will enable the company take advantage of the relatively low interest rate in the market. As at Q3 2018, the company had commercial papers totalling N15.61bn in issue.

NB also accepted an offer from the Bank of Industry Limited of a long term loan (7years) and Working Capital Loan (3¹/₂ years) of N10bn and N5bn respectively. The long term loan will be used to finance the purchase of plant and machinery for the expansion of the company's breweries.

4.0 Drivers of Performance:

The following factors affected the performance of the company:

Positive Factors:

- Large market size in Nigeria and market leadership
- Substantial savings in cost as elimination of cost that do not add value to customers was adopted
- Continuous product innovation
- Growth in the Value-for-Money brands – low priced brands
- Portfolio of leading brands
- Strong and effective route-to-market
- Relative stable exchange rate and improvement in access to foreign exchange
- Introduction of supplier finance scheme – with benefits of extended payment terms and quicker access to cash for suppliers

Negative Factors:

- Stiff competition from new player
- Aggressive competition by way of discounts and promotions
- The weak consumers' purchasing power
- Harsh operating environment
- Traffic bottlenecks in and around the Lagos ports and roads

4.1 Strategic Focus:

NB's planned focus and execution of its twin agenda of costs leadership and market leadership supported by innovation should help improve its results in coming years. The cost leadership agenda involves revenue management, cost optimization, consumer value engineering and synergies. The market leadership agenda involves increased market share, strong brands and affordable prices. These objectives are supported with continuous innovation of products that meet the need and taste of the consumers in order to capture and retain them.

NB's plans on maintaining its twin agendas of costs leadership and market leadership supported by innovation.

The company plans to drive growth through leadership in the value segment.

The competitors have reacted with discounts and promotions, leading to lose of market share to a major new entrant AB InBev. Most players are now shifting from premium brands to value brand (cheaper brands). NB has increased a number of these products to maintain and gain more market share. Revenue from premium brands like Star and Gulder have dropped. Part of its strategy is to drive growth through leadership in the value segment. In a bid to entrench the premium brands NB launched the new bottle size 45cl of Tiger brand instead of the standard 60cl. First launched in Lagos earlier in 2018, the plan is to eventually roll it out nationally.

NB will improve its local sourcing strategy going forward, and the company does not have any foreign currency loan.

NB will improve its local sourcing strategy going forward.

It has also given priority to issuance of commercial papers for working capital needs because of low interest rates. However, we believe interest rates may rise from current levels before elections and in response to the monetary policy normalisation in the advanced economies.

5.0 Business:

NB is primarily involved in the brewing, marketing and selling of lager, stout, non-alcoholic drinks and soft drinks. The company is noted for its large market share and continuous product innovation. In 2017, the Ace brand was further extended with the launch of Ace Desire, a ready-to-drink "Zobo" flavoured alcoholic offering. Also launched in 2017 was a premium international brand, Stella Lager Beer. The company has eleven breweries to date. The breweries are: Lagos Brewery, Ibadan Brewery, Kudenda (Kaduna) Brewery, Ijebu – Ode (Imagbon) Brewery, Aba Brewery, Ama Brewery, Onitsha Brewery, Awo-Omma Brewery, Kakauri (Kaduna) Brewery, Ota Brewery and Makurdi Brewery. NB also has two malting plants, a standalone malting plant in Aba and another that is part of the Kudenda (Kaduna) Brewery. It also has Sales Offices and Depots across the country. **NB portfolio includes the following brands: Star, Gulder, Maltina, Maltina Sip-it, Legend Extra Stout, Amstel Malta, Heineken, Fayrouz, Climax, Goldberg lager, Malta Gold, Ace Passion, "33" Export, Williams, Turbo King, More, Maltex, Hi Malt, Life Continental, Strongbow (Gold Apple), Star Triple X, StarLite, Star Radler, Ace Roots, Ace Rhythm, Ace Desire and Stella.**

The company currently exports to the United Kingdom, Netherlands, United States of America, other parts of Africa as well as part of the Middle East and Asia.

A breakdown of the shareholding structure shows that three companies; Heineken Brouwerijen, Distilled Trading International and Stanbic Nominees Nigeria have more than 10% interest in NB. As at December 2017, they held 37.76%, 15.47% and 13.28% shareholding respectively. Both Heineken Brouwerijen and Distilled Trading are part of Heineken N.V. Group. **Technically as at December 2017, Heineken N.V. Group held 53.23% interest in NB.**

NB is primarily involved in the brewing, marketing and selling of lager, stout, non-alcoholic drinks and soft drinks.

NB currently exports to the UK, Netherlands, USA, other parts of Africa as well as part of the Middle East and Asia.

Heineken N.V. Group held 53.23% equity in the company as at December 2017.

Table 7: Shareholding Structure as at 31, December 2017

Shareholders	No. of Shares Held	% of Shareholding
Heineken Brouwerijen BV	3,019,630,214	37.76
Distilled Trading International BV	1,237,120,747	15.47
Stanbic Nominees Nigeria Limited	1,061,988,592	13.28
Others	2,678,162,497	33.49
Total	7,996,902,051	100.00
Heineken Brouwerijen BV and Distilled Trading are part of Heineken N.V. of the Netherlands.		
<i>Source: Company Annual Account – 2017</i>		

Table 8: Company Summary

Ticker	NB
Sector	Consumer Goods
Sub-Sector	Beverages-Brewers/Distillers
Date of Incorporation	1946
Date of Listing	1973
Financial Year End	December
Number of Fully Paid Share	7,996,902,051
Current Capitalization(NGN)	655,745,968,182
NSE Capitalization (NGN)	11,755,564,134,670
% of NSE Capitalization	5.58
52 Week Low NGN	80
52 Week High NGN	152.68
YTD Return (%)	(36.15)
52 Weeks Average Volume Traded	3,637,866
Trailing EPS NGN	2.98
Trailing P/E Ratio (X)	27.52

As at November 09, 2018

Source: Company Annual Account – 2017 and FSDH Research Analysis

Table 9: Directors' Shareholding as at 13 February, 2018

Director	Position	Holdings
Chief Kolawole B. Jamodu, CFR	Chairman	536,704
Mr. Jordi Borrut Bel	MD/CEO	Nil
Mr. Olusegun S. Adebajji*	Non-Executive Director	Nil
Mr. Franco M. Maggi	Executive Director	Nil
Chief Samuel O. Bolarinde	Non-Executive Director	711,603
Mr. Sijbe Hiemstra (Dutch)	Non-Executive Director	Nil
Mrs. Ifueko M. Omoigui Okauru MFR	Non-Executive Director	35,992
Dr. Obadiah Mailafia	Non-Executive Director	Nil
Mr. Atedo N.A. Peterside, CON**	Non-Executive Director	Nil*
Mr. Hendrik A. Wymenga (Dutch)	Executive Director	Nil
Mrs. Ndidi O. Nwuneli, MFR	Non-Executive Director	Nil
Mr. Roland Pirmez	Non-Executive Director	Nil
Mr. Mark P. Rutten	Executive Director	Nil
*Has indirect holding of 305,334 units of the Company's shares via Callisto Investments Limited		
**Has indirect holding of 10 million units (shares) via The FirstANAP Domestic Trust.		
Source: Company Annual Account – 2017		

NB is the market leader in lager and malt and a challenger in Stout. Major competitors for NB in these categories include Guinness Nigeria and AB InBev.

NB has 20 brands sold in over 53 SKUs across lager, cider, malt, stout and soft drinks.

The company is operating in Nigeria as International Breweries AB Inbev.

6.0 Product Analysis:

NB has a product portfolio made up of both the alcoholic and the non-alcoholic products. In total, there are 20 brands sold in over 53 SKUs across lager, cider, malt, stout and soft drinks. NB is the market leader in lager and malt and a challenger in Stout. Major competitors for NB in these categories include Guinness Nigeria and AB InBev. Guinness Nigeria has brands like Guinness, Harp, Dubic, Satzenbrau, Smirnoff, Snapp and Orijin. AB InBev recently acquired SAB Miller that operates:

- Pabod Breweries Ltd (PBL) in Port Harcourt Rivers State,
- Intafact Beverages Ltd (IBL) in Onitsha Anambra State
- International Breweries Plc (IBP) in Ilesha in Osun State
- Beverage Management Services (BMS). The Spirits business based in Port Harcourt, Rivers State.

The company is operating in Nigeria as International Breweries AB Inbev. The above named companies were recently merged into one. AB InBev is a new major competitor with regional brands like Hero, Trophy Lager, Castle Milk Stout, Grand Malt, Eagle and Beta Malt. AB InBev in addition to the above mentioned facilities recently completed and inaugurated a US\$250million factory in Agbara, Ogun State on 28 August 2018.

6.1 Alcoholic:

NB has products in the Cider, Ready-To-Drink, Lager and Stout segments of the alcoholic market. The brands under these segments are:

- **Stout:** Legend Extra Stout, Williams Dark Ale and Turbo Kings Dark Ale. The competing products are Guinness Foreign Extra Stout, Guinness Africa Special, Castle Milk Stout and Guinness Extra Smooth
- **Cider:** Strongbow Apple Cider. Competing local brand include Redd's Premium Cider while other foreign brands are Magners Irish Cider, Savanna Dry and Kopparberg

NB has products in the Cider, Ready-To-Drink, Lager and Stout segments of the alcoholic market.

- **Ready-To-Drink:** Ace-Passion Apple Spark, Ace Roots, Ace Rhythm, Star Radler and Ace Desire. Competing products include Smirnoff Ice, Snapp and Orijin.
- **Lager:** Star (including Star Lite and Star Triple X), Goldberg, Life Continental, “33” Export, More, Heineken, Gulder and Stella. Competing products in this segment include Harp, Dubic, Satzenbrau, Hero, Trophy Lager, Eagle and readily available foreign brands like Corona Extra, Becks and Budweiser.

6.2 Non-Alcoholic:

NB has products in the Malt, Herbal Energy and Carbonated Soft Drinks segments of the Non-Alcoholic market. The brands under these segments are:

NB has products in the Malt, Herbal Energy and Carbonated Soft Drinks segments of the non-alcoholic market.

- **Malt:** Maltina (including Maltina SIP-IT), Amstel Malta, Malta Gold, Maltex and Hi Malt. Competing brands include Malta Guinness (including Malta Guinness Low Sugar), Beta Malt and Grand Malt.
- **Energy Drink:** Climax. Competing brands include Power Horse and Red Bull.
- **Carbonated Soft Drinks:** Fayrouz. Competing businesses in this segment include Coca-Cola Company with brands like Coca Cola, Fanta, Sprite and Bitter Lemon. The La Casera Company with brands like La Casera, Latina and Smoov. The Seven Up Bottling Company with brands like Pepsi, Mountain Dew, 7up, Mirinda and Teem. Lately AJEAST Nigeria Limited, producers of Big cola brand and its variants (Cola, Lemon, and Orange). Meanwhile, NB is not strong in the carbonated soft drink segment.

7.0 SWOT Analysis:

<p>7.1 Strengths:</p> <ul style="list-style-type: none"> ○ Strong route-to-market ○ Innovative and enlarged product offerings ○ Strong alliance with parent company ○ Leading brands in most segments ○ Proven experience in the Nigerian market 	<p>7.2 Weaknesses:</p> <ul style="list-style-type: none"> ○ Declining profit margins ○ Premium brands loss of market share ○ Low market share in carbonated soft drink segment of the market ○ Loss of market share to new entrant
<p>7.3 Opportunities:</p> <ul style="list-style-type: none"> ○ Large market size in Nigeria ○ Growth in the value segment ○ Slight improvement in some macroeconomic indicators ○ Relatively low interest rate ○ Low per capita beer consumption in Nigeria ○ Local substitution strategy to lower import and foreign exchange cost 	<p>7.4 Threats:</p> <ul style="list-style-type: none"> ○ High input costs ○ Weak consumer spending power ○ Stiff competition within the industry ○ Security challenges especially in the Northern parts of the country ○ Challenging operating environment to persist

8.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecast:

Positive Factors:

- Local substitution strategy across the value chain
- Sourcing sustainability - creating shared, sustainable value for all stakeholders
- Strategy to control price increases
- Market leadership - strong brands, affordable prices, increased market share
- Cost leadership - Strong central backbone with efficient processes, Cost/hl increases below inflation, Reap benefits of economics of scale
- Innovative product offerings
- Revenue management – This programme is focused on improving revenue per hectolitre, increasing volumes, and further optimise commercial investments like discounts and promotions.
- The growth of new hypermarkets and supermarkets
- Growth in the economy brands
- Aggressive advertisement
- Electioneering spending in 2019

Negative Factors:

- The prevailing stiff competition in the industry
- The current weak consumers' spending power
- Difficult operating environment

Although we recognise the impact of the stiff competition. We believe each player will fight for survival.

Although we recognise the impact of the stiff competition, we believe each player will fight for survival. NB may lose some market share in the process, it will remain a market leader in the next 5 years. Looking at the medium to long-term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of

the positive factors would be higher on both the revenue and the profitability of the company than the negative factors.

We estimate a Turnover of N352.33bn, N372.60bn, N398.51bn, N428.21bn and N457.99bn for the periods ending December 2018, 2019, 2020, 2021 and 2022 respectively. We estimate EBIT of N50.94bn, N51.51bn, N51.34bn, N50.81bn and N48.67bn, and EBITDA of N87.59bn, N93.75bn, N100.27bn, N107.75bn and N115.24bn for the same period using EBIT margins of 14.46%, 13.82%, 12.88%, 11.87% and 10.63% respectively. Our PBT forecasts for the periods are: N46.17bn, N44.61bn, N42.86bn, N41.76bn and N38.47bn. Adjusting for tax, our PAT forecasts are N32.49bn, N31.39bn, N30.16bn, N29.39bn and N27.07bn. PAT margin for the period are 9.22%, 8.42%, 7.57%, 6.86% and 5.91%. Our forecast final dividend for the FY 2018 is N3.46 per share.

We estimate a dividend per share of N4.06 for the FY 2018.

N'bn	DecA-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Turnover (Net Sales)	344.56	352.33	372.60	398.51	428.21	457.99
Cost of Sales	(201.01)	(208.36)	(220.35)	(235.67)	(253.24)	(270.85)
Gross Profit	143.55	143.97	152.25	162.84	174.97	187.14
Admin, Selling & Distribution Expenses	(55.96)	(57.15)	(59.32)	(63.44)	(68.17)	(72.91)
Depreciation	(32.69)	(36.65)	(42.25)	(48.93)	(56.94)	(66.57)
Other Operating Income	2.22	0.78	0.82	0.88	0.94	1.01
EBIT	57.12	50.94	51.51	51.34	50.81	48.67
EBITDA	89.81	87.59	93.75	100.27	107.75	115.24
Net Finance Cost	(10.49)	(4.77)	(6.90)	(8.48)	(9.05)	(10.20)
PBT	46.63	46.17	44.61	42.86	41.76	38.47
Taxation	(13.58)	(13.68)	(13.22)	(12.70)	(12.37)	(11.40)
PAT	33.05	32.49	31.39	30.16	29.39	27.07

Source: Company Annual Account – 2017 and FSDH Research Analysis

	DecA-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
EBITDA Margin	26.07%	24.86%	25.16%	25.16%	25.16%	25.16%
EBIT Margin	16.58%	14.46%	13.82%	12.88%	11.87%	10.63%
PBT Margin	13.53%	13.11%	11.97%	10.76%	9.75%	8.40%
PAT Margin	9.59%	9.22%	8.42%	7.57%	6.86%	5.91%
EPS(N)	4.13	4.06	3.93	3.77	3.67	3.39
DPS(N)	4.13	4.06	3.92	3.77	3.67	3.38
Dividend Payout	99.94%	99.91%	99.91%	99.91%	99.91%	99.91%
Earnings Yield *	4.70%	3.69%	3.57%	3.43%	3.34%	3.08%
Dividend Yield *	4.69%	3.69%	3.57%	3.43%	3.34%	3.08%
P/E Ratio*	21.29	27.07	28.02	29.16	29.93	32.49
Number of Shares ('bn)	7.997	7.997	7.997	7.997	7.997	7.997
ROCE	25.26%	22.38%	21.77%	21.50%	21.05%	19.77%
ROE	18.54%	18.28%	17.77%	17.19%	16.82%	15.70%
Collection Days	14	15	15	15	15	15
Payment Days	125	136	136	136	136	136
Inventory Turnover	4.70	5.22	5.22	5.22	5.22	5.22
Asset Turnover	0.90	0.89	0.91	0.94	0.99	1.03
Current Ratio	0.56	0.56	0.59	0.59	0.58	0.58
Quick Ratio	0.29	0.32	0.35	0.35	0.33	0.31
Debt Ratio (Total Liabilities /Total Assets)	0.53	0.55	0.57	0.58	0.60	0.61
Gearing Ratio	4.49%	20.03%	26.63%	29.83%	32.82%	39.05%
Interest Cover	5.36	10.17	7.27	5.96	5.57	4.78
<i>*At Our Target Price of N110.00</i>						
Source: Company Annual Account – 2017 and FSDH Research Analysis						

Table 12: Statement of Financial Position Forecast (2017 - 2022)						
N'bn	DecA-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Property, Plant and Equipment	195.23	200.53	206.14	212.65	220.25	229.12
Investments	0.15	0.15	0.15	0.15	0.15	0.15
Other Receivables and Prepayments LT	1.08	1.43	1.43	1.43	1.43	1.43
Intangible Assets and Goodwill	98.28	99.08	99.08	99.08	99.08	99.08
Long Term Assets	294.74	301.19	306.80	313.32	320.91	329.78
Inventory	42.73	39.92	42.22	45.16	48.52	51.89
Trade Receivables	13.14	14.26	15.08	16.13	17.33	18.53
Other Receivables & Short Term Assets	15.76	38.71	53.51	63.05	67.74	76.73
Deposits/Balances & Cash	15.87	22.15	17.39	12.22	7.08	(1.53)
Current Assets	87.49	115.04	128.20	136.55	140.67	145.63
Total Assets	382.23	416.23	435.00	449.86	461.58	475.41
Trade Payables	68.83	77.90	82.38	88.11	94.68	101.26
Short Term Loans and Advances	0.47	2.64	5.93	10.04	9.04	8.13
Other Payables	59.12	36.21	38.29	40.95	44.01	47.07
Dividends Payable	8.03	33.03	32.47	31.36	30.14	29.36
Current Tax Payable	19.61	13.68	13.22	12.70	12.37	11.40
Current Liabilities	156.05	163.45	172.29	183.17	190.23	197.22
Working Capital/ Net Current Asset	-68.56	-48.41	-44.09	-46.62	-49.56	-51.59
Capital Employed	226.18	252.78	262.71	266.70	271.35	278.19
Deferred Taxation	26.67	26.86	25.95	24.93	24.29	22.38
Staff Retirement Benefits	13.21	12.56	13.03	13.94	14.98	16.02
Long Term Liabilities	47.88	75.02	86.02	91.21	96.61	105.74
Total Liabilities	203.93	238.47	258.31	274.38	286.84	302.96
Total Net Assets	178.30	177.76	176.69	175.49	174.74	172.45
Paid Up Share Capital	4.00	4.00	4.00	4.00	4.00	4.00
Share Premium	73.77	73.77	73.77	73.77	73.77	73.77
Share based payment reserve	0.75	0.75	0.75	0.75	0.75	0.75
General Reserve	99.69	99.16	98.08	96.88	96.13	93.85
Total Reserves	174.21	173.68	172.60	171.40	170.65	168.36
Total Equity	178.30	177.76	176.69	175.49	174.74	172.45
Total Equity & Liability	382.23	416.23	435.00	449.86	461.58	475.41

Source: Company Annual Account – 2017 and FSDH Research Analysis

9.0 Valuation:

We employed a relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

The fair value for Nigerian Breweries Plc is N133.76

Assumptions:

- EV/EBITDA Multiple: 12.51x
- WACC: 21%
- Number of shares in issue: 7.99bn

Applying the EV/EBITDA multiple of **12.51x** on EBITDAs for the forecast period, we arrived at **N133.76** per share as the fair value.

The current market value of NB share is N82.00, the highest and the lowest closing prices in the last 52 weeks are N152.68 and N80.00 respectively. The forward earnings yield and dividend yield of the company at our fair value are 3.69% and 3.69% respectively. The total return, a combination of the capital appreciation and the dividend, generates an appreciation of 39.01% at the target price. This is higher than our minimum equity return benchmark of 18.88%. We therefore place a **BUY** rating on the shares of Nigerian Breweries Plc at the price of N82.50 as of 14 November 2018. Our target price for the shares of Nigerian Breweries in the next one year is N110.00.

9.1 Risks to Price Target:

The following risks may affect the price target:

- Increase in the yield on fixed income securities
- Drop in market liquidity

Company	Nigerian Breweries	Guinness**
Turnover (Net Sales)	344.56	142.97
Gross Profit	143.55	48.63
EBIT	57.12	13.39
PBT	46.63	9.94
PAT	33.05	6.72
GP Margin	41.66%	34.01%
EBIT Margin	16.58%	9.37%
PBT Margin	13.53%	6.95%
PAT Margin	9.59%	4.70%
ROE	18.54%	7.67%
Net Assets	178.30	87.59
Net Assets Per Share	22.30	39.99
Trailing PE Ratio	27.52	21.58
Trailing Earnings Yield*	3.63%	4.63%

*As at 13 November 2018
**Year End is in June

Rating	Criteria
BUY	Fair value of the stock is $\geq 18.88\%$ * compared with the current market price.
HOLD	Fair value of the stock ranges between -10% and 18.88% of the current market price.
SELL	Fair value of the stock is > 10% below the current market price.

**18.88% is our estimated minimum equity return. It is the combination of our risk free rate and risk premium. Our risk free rate is the average yield on a five-year FGN Bond. We adopted a 5% risk premium and set the risk free rate every quarter.*

Fair Value: This is the value of the ordinary shares of the company using the valuation method appropriate for the company. It is the intrinsic or true value of the stock based on fundamentals of the company. The market price may either trade at a premium or discount to the intrinsic value.

Price Target: This is the price that we believe the shares of the company will trade within our time horizon. Other risk factors may affect the attainment of this price. This price may or not be different from the intrinsic value.

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