AFRINVEST SECURITIES

Brewery Sector Update

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Brewing in Tough Times

Industry Outlook: Underweight

Executive Summary

Against the backdrop of Nigeria's fragile macroeconomic environment, the brewery sector performance have remained pressured despite a robust population advantage estimated at over 200 million people. Our analysis of the sector reveals that industry revenue grew by a CAGR of 5.1% between 2017 and 2019 to ₦594.3bn from ₦511.8bn. Notwithstanding, the sector is not out of the woods yet as intense competition still presents limited scope for volume growth while the impact of regulation and higher cost pressures continue to weigh heavily on the overall performance. Equally, macroeconomic fundamentals are little changed in favour of consumer spending in the face of persistent weak economic growth, currency pressures, and higher unemployment & inflation rates. Notably, data from the NBS shows that consumers spent the least on alcoholic drinks at ₦150.2bn, representing 0.4% of total consumption expenditure in the last decade. This is not unexpected given the poor state of consumer's disposable income with a slow CAGR of 1.7% in the last five years as well as the discretionary nature of alcohol consumption.

While Nigeria's large population and strong demographic appeal are some of the key industry growth propellers, we note that the sector is still faced with tough fiscal regulations including the June 2018 new excise duty burden on beer, wines and spirits as well as the new VAT rate of 7.5% implemented in February 2020. Likewise, external risk factors mainly lower oil prices are also constraints to FX capital flows for the importation of essential raw and packaging materials such as barley and aluminum cans. Meanwhile the insecurity issues in the Middle-belt region still persists, upsetting the supply of locally sourced raw materials such as rice and sorghum, thus threatening brewer's backward integration strategies with added cost pressures. Given these changing dynamics and the limited room for pricing, brewers have been compelled to actively seek to improve efficiency across the value chain through backward integration as well as to retain and increase market share through brand visibility. Observably, as the battle for market share deepens, industry players continue to leverage product innovations to remain competitive in the face of constrained pricing actions. Nigerian Breweries for instance, launched a new "45cl Legend Extra Stout" in 2019 – a variation of the popular Legend Stout (originally in 33cl and 60cl bottle sizes) while GUINNESS introduced two (2) new products in the premium lager segment - "Guinness Gold" and "Baileys Delight" (a variation of its popular Baileys Cream liquor) - and one (1) in the spirit segment, "Orijin Herbal Gin".

As at FY:2019, the market structure of the Nigerian brewery industry is still oligopolistic with four (4) major listed players - Nigerian Breweries Plc (NB), International Breweries Plc (INTBREW), Guinness Nigeria Plc (GUINNESS) and Champion Breweries Plc (CHAMPION). However, in our analysis, we focused on 3 of the 4 listed brewers noting that NB maintained dominance as the largest brewer with a coverage market

Outline

share by revenue of 54.3%, INTBREW trailed, accounting for 22.3% and displacing GUINNESS as the second largest brewer while GUINNESS now accounts for 22.1% of coverage market share by revenue.

Overall, we note that growing volumes and improving profitability remains a tight rope to walk especially in the wake of the COVID-19 pandemic. We believe short term growth triggers are limited considering the devastating impact of the pandemic on consumer's income. Therefore, we suspect the trend of increased product offerings especially at the mainstream and value segments of the market as well as targeted marketing and advertising strategies would be sustained over the short to medium term. In addition, despite the recent drive to boost local supply of raw materials, brewers remain largely dependent on importation, still accounting for over 40.0% of raw material components on the average. Meanwhile increased competition has strongly restricted the scope for pricing actions to support margins due to cost pressures, fragile consumer spending and shifting consumer preferences. Thus, we now expect the response to FX devaluation and COVID-19 economic shocks to largely influence pricing decisions in the industry as consumers' disposable income takes a hit.

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Investment Thesis

Nigeria's attractive consumer market based on favourable demographics and a beer consumption per capita of 10.9litres (vs.22litres African peer average, ex-North Africa), undoubtedly, makes a compelling case for beer volume growth. Similarly, with the social recognition of beer especially among the vast youthful population base, there exists strong potentials for growth as these prospective consumers come on stream. While the COVID-19 pandemic has exacerbated major downside risks to industry profitability including reduced consumer spending and higher FX instability, we believe the availability of cheaper substitutes as well as the increased adoption of backward integration could mitigate the impact on growth. More so, despite the industry's high exposure to macroeconomic risks induced by COVID-19, its inherent growth potentials still makes a case for long term investment decisions. In our view, an improvement in income and in turn, higher domestic beer consumption will support the sector's performance, setting it apart on the heels of a recovering post-COVID economy.

While current macroeconomic pointers suggest weak growth prospects, we see long-term value in the brewery sector given its weak pricing relative to peers in the Emerging (EM) and Frontier (FM) markets. The average industry's current market pricing (P/E ratio of 15.9x) of the Nigerian brewery sector suggests an attractive investment proposition relative to selected EM and FM peers – India (47.2x), China (46.2x), Malaysia (26.5x), Indonesia (26.3x) Tanzania (22.4x), amongst others. Notwithstanding, given its direct link to overall economic performance, we maintain a weak outlook on the sector over the short to medium term. We believe the lockdown and persistent closure of on-trade channels which constitute about 60.0% of sales would further exacerbate volume growth pressures with a considerable impact on revenue. Meanwhile taxes, exchange rate devaluation and FX rationing by the CBN portends higher cost challenges, thus dragging profitability growth. Based on our valuation, we valued NB and GUINNESS at ₦37.09 and ₦10.79 per share respectively, representing an upside potential of 19.6% and a downside potential of 17.0% from the market price of ₦31.00 and ₦13.00 per share as at 29-July-2020. Meanwhile, INTBREW is 'UNRATED' as the company remains beset with significant cost and margin challenges despite better volume and revenue performance relative to peers. Hence, we are not optimistic of a near term return to profitability in the wake of the new headwinds to growth.

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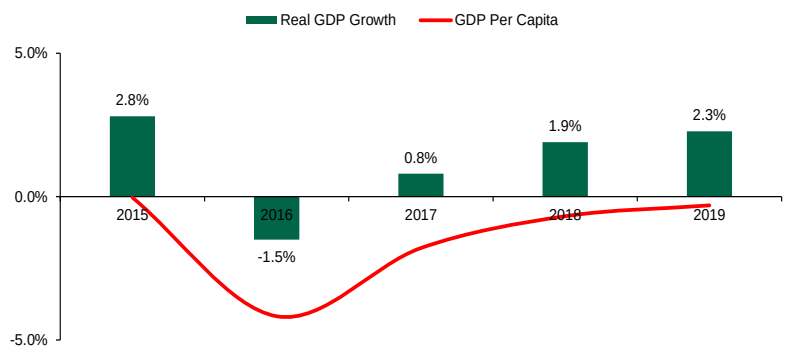
A Challenging Operating Environment… Industry Scrambles for Resilience

The Nigerian brewery sector has endured tough times in recent years as it is driven by overall macroeconomic conditions. Despite a strong and expanding population at 200 million people, the industry's performance has been troubled by deteriorating macroeconomic conditions amid strong competition. The weak macro fundamentals remain a persistent drag on household income and consumer spending. For context, GDP readings from the NBS indicates that household final consumption expenditure has staggered over the years, contracting at a CAGR of 0.3% between 2014 and 2019. Additionally, the NBS consumption expenditure data for 2019 revealed that the share of spending on alcoholic drinks was at the bottom of the pyramid at only 0.7% of food expenditure and 0.4% of total expenditure during the period. This underscores how the discretionary nature of alcohol consumption impact consumer's spending decision. With the economy still reeling from the 2016 economic recession, the brewery sector is experiencing even tougher times on its road to recovery.

Chart 1: Real GDP vs. GDP Per Capita (2015-2019)



Source: NBS, IMF, Afrinvest Research

This sluggish recovery since the economic recession has affected key drivers of industry performance. Economic growth averaged 0.9% between 2016 and 2019, unemployment rate was elevated at 23.1% as at Q3:2018 while inflation averaged 13.9% between 2016 and 2019. The implication of these poor indicators is sustained weakness in disposable income and rising poverty levels, which constrain sector earnings. Stiffer competitive pressures have partly resulted in limited opportunity for pricing actions, resulting in weaker margins and reduced profitability.

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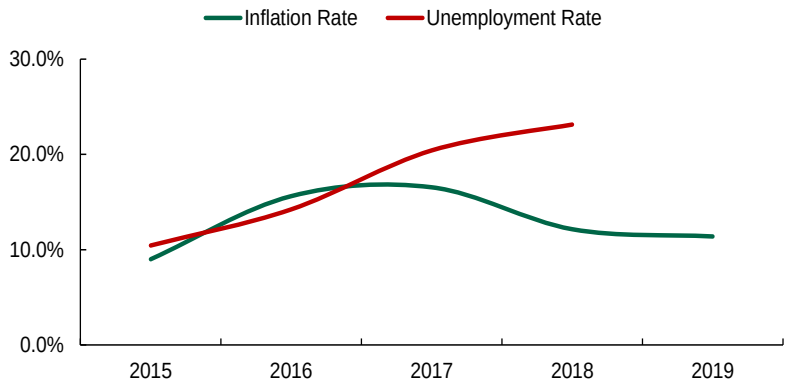
Chart 2: Unemployment & Inflation Rates in % (2015-2019)



Source: NBS, Afrinvest Research

Competitive Dynamics…. Industry Players Still in Pursuit of Market Share

Prior to 2017, the Nigerian beer market was dominated by two players - GUINNESS and NB – which controlled 94.7% of the market. However, with AB InBev's – the world largest brewery company – investment in International Breweries and the subsequent consolidation with SABMiller's operations (owners of Intafact breweries and Pabod breweries) in 2017, market dynamics have changed. The company's Trophy lager beer was revamped to compete strongly against NB's Star and other lagers in the mainstream segment. Meanwhile, Budweiser – its premium drink launched in 2018 – now competes with NB's Heineken and Guinness Gold in the premium segment.

The market structure of the brewery industry is still oligopolistic with four (4) major players - Nigerian Breweries Plc (a subsidiary of Heineken N.V. Plc), the largest brewing company in Nigeria; International Breweries Plc (a subsidiary of Anheuser-Busch InBev (AB InBev) Plc) and the second largest brewer; Guinness Nigeria Plc (a subsidiary of Diageo Plc), now the third largest and Champion Breweries Plc (also owned by Heineken N.V. Plc). In our analysis, we cover 3 of the 4 listed brewery companies – Nigerian Breweries Plc (NB or "the company"), Guinness Nigeria Plc (GUINNESS or "the company") and International Breweries Plc (INTBREW or "the company") with 98.7% of total market share by revenue.

We note that increased competition has strongly restricted the scope for pricing actions to support margins due to cost pressures, fragile consumer spending and shifting consumer preferences. In response to these challenges, industry players have continued to scout for creative ways to expand market share and boost product demand. This is evident in the sustained efforts towards product innovation and

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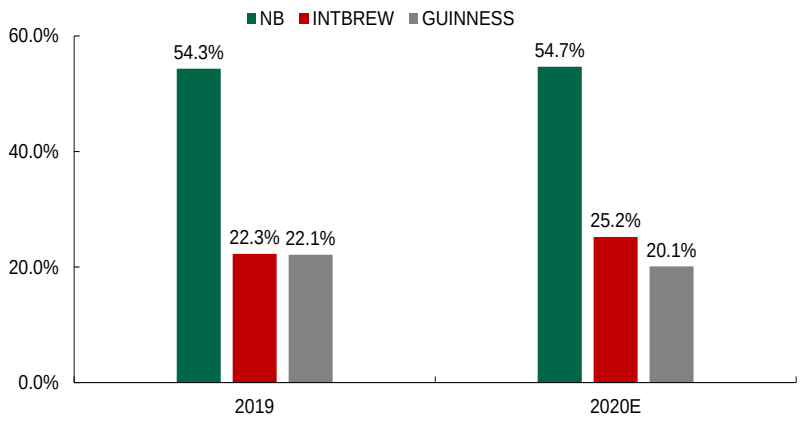
variation of the pre-existing products in terms of taste and product size. An example of this is seen with the launch of a new "45cl Legend Extra Stout" in 2019 by NB – a variation of the popular Legend Stout (originally in 33cl and 60cl bottle sizes) - to appeal to the lower income class. Similarly, in the face of competitive pressures, GUINNESS launched two (2) new products in the premium lager segment in 2019 - "Guinness Gold" and "Baileys Delight" (a variation of its popular Baileys Cream liquor) - and one (1) in the spirit segment, "Orijin Herbal Gin".

With unrelenting competition, the pursuit of market share has remained at the centre of brewers' strategies but this has not come easy. NB, with its first mover advantage (since June 1949) and a broad range of products, maintains market dominance despite increased rivalry that has reduced its market share to 54.3% as at FY:2019 from 67.3% in FY:2017. INTBREW, on the other hand, continues to leverage its 2017 consolidation to increasingly expand its footprint. The company's market share by revenue rose from the 7.1% recorded pre-consolidation to 22.3% in FY:2019, displacing GUINNESS to become the second largest brewer. The market share for GUINNESS as at FY:2019 stood at 22.1%, down from 24.6% in FY:2017. By FY:2020, we expect INTBREW to sustain growth in its market share at 25.2%, while that of NB would slightly increase to 54.7% and GUINNESS is projected to decline further to 20.1%.

Chart 3: Industry Market Share by Revenue (2019-2020E)



Source: Company Filings, Afrinvest Research

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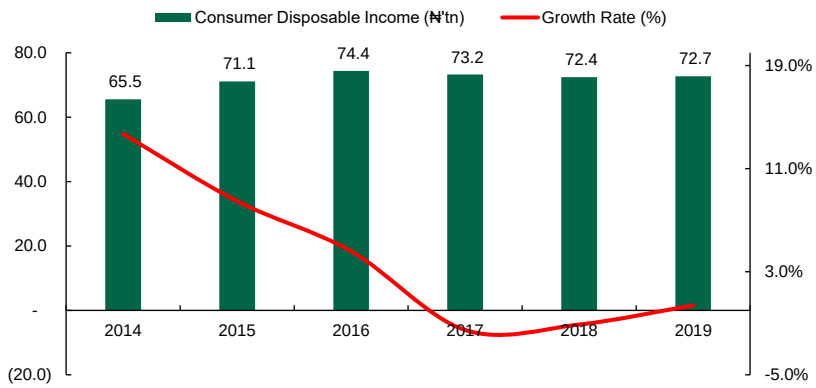
Trends Shaping Market Dynamics in the Nigerian Brewery Industry

Market dynamics in the brewery sector have been shaped by evolving consumer taste and shifting preferences given the availability of substitutes due to increased competition. We analyse underlying conditions such as disposable income, sensitivity to price and the quality considerations that are changing consumer behaviour.

Consumer Disposable Income Still Unsupportive of Demand

As income growth is a strong driver of beer consumption, higher consumer purchasing power is crucial for the sector but this has been lacklustre in recent times due to the economy's slow recovery from the 2016 recession. According to the NBS, growth in disposable income was weak at a CAGR of 1.7% between 2014 and 2019. Also, higher unemployment as well as rising consumer prices continues to plague the economy, dragging consumers' purchasing power and restraining spending. With COVID-19 inducing more job losses as well as stiffer economic conditions, consumer spending would taper over the short to medium term, affecting brewers' growth prospects.

Chart 4: Disposable Income vs Growth Rate (2014-2019)



Source: NBS, Afrinvest Research

Margins Stretched by Higher Excise Duties

Following the June 2018 introduction of a new excise duty regime, which replaced the initial 20% ad-valorem tax for the sector, cost pressures have intensified. Notably, average industry gross margin declined to 34.5% in FY:2019 from 39.2% in FY:2017, highlighting added pressure from higher excise duties on net revenue in the face of competition. The last phase of implementation, which is an increment in excise duty for Spirits from the current ₦1.75/cl to ₦2.00/cl, commenced in June 2020. We expect increased pressure on the industry's net revenue and gross margin, which is yet to recover since the first phase

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of implementation in June 2018. We note that GUINNESS would be most impacted given a larger spirit portfolio, which contributed c.18.0% of revenue as at FY:2019. However, we observed price adjustments by NB and GUINNESS in November 2019 - majorly at the premium segment which should slightly support margins. NB increased the distributor price of Heineken and Legend by 1.8% while only the "33 Export" suffered a 5.6% price hike in the mainstream segment. Likewise, GUINNESS followed suit, making a 1.8% increase in the price of "Guinness Foreign Extra", a premium brand. The management of NB and GUINNESS also guided towards additional price increase in 2020, but we believe the case for this is not as strong given the economic shocks brought by COVID-19 and the negative impact on consumers.

...considering that beer consumption is highly price elastic at the low-end segment of the market, making upward price adjustments to support earnings has been challenging for brewers.

Chart 5: Excise Duty

Excise Duties	2018	2019	2020
Beer and Stout/cl	₦0.30	₦0.35	₦0.35
Wines/cl	₦1.25	₦1.50	₦1.50
Spirits/cl	₦1.50	₦1.75	₦2.00

Source: FMoF, Afrinvest Research

Price Sensitivity Spurs Consumer Down-trading

With weak purchasing power, consumers reallocate their spending and shift consumption to value products given high price sensitivity. This has been made easy by the availability of cheaper substitutes, supporting demand from low income consumers. More so, considering that beer consumption is highly price elastic at the low-end segment of the market, making upward price adjustments to support earnings has been challenging for brewers. Nonetheless, industry players have responded to this shift in consumption through product reclassification based on perceived affordability. For instance, some value brands are now considered to be mainstream, while some mainstream products have been reclassified under the premium category.

We note that the trend in consumer demand driven by taste and the penchant for quality is still largely unchanged given the constantly changing consumer taste.

Is Variety the Spice of (Drinking) Life?

We note that the trend in consumer demand driven by taste and the penchant for quality is still largely unchanged given the constantly changing consumer taste. This has driven creativity in the sector by promoting investment in Research and Development (R&D) to introduce new products. Likewise, the increasing share of health-conscious consumers as well as the shift towards cheaper alternatives is compelling product variety. For instance, the range of products offered

by brewers vary mostly in terms of flavour. This holds true particularly in the Lager, Malt, Stout and Ready-to-Drink (RTDs) segments. As consumers drinking choice evolves, brewers constantly adjust, combining low sugar as well as different fruits and herbs. NB, for instance, offers varied products including Ace Desire (Zobo Flavoured drink) and Ace Roots (largely herbs and fruits with alcohol) in its RTD category. While focus on the development and visibility of premium products are the main target for brewers, pressured consumer wallets continue to shift attention to the mainstream and value segments. As such, product modification is more noticeable within the mainstream and value segments of the market.

Improving Route to Market Strategy

Market penetration is a key success factor in the brewery industry. Notably, in the face of stiffer competition, brewers invest heavily on promotional activities to improve visibility and enhance product appeal with focus on brand retention. Similarly, an appropriate distribution network strongly supports the targeted marketing and distribution strategies of companies. From our analysis, following the entry of INTBREW, the marketing and distribution expenses of our coverage companies grew by a CAGR of 1.4% between 2017 and 2019 compared to a contraction by a CAGR of 3.6% between 2014 and 2016. The increase witnessed in these cost lines possibly points to increased focus on market penetration in the face of competition. We expect this trend to be sustained and be supportive of product visibility, which should drive growth.

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Sector Outlook… COVID-19 Impact Would be Far-Reaching

The unexpected outbreak of COVID-19 would bring additional pressure to the sector already grappling with stiff competition and higher production taxes. To navigate the murky waters, we foresee increased portfolio diversification through product innovation particularly in the mainstream and value segment, following an expected shift in consumer taste and health choices. In addition, we expect to see aggressive promotional activities geared towards sustaining brand appeal while FX challenges would inevitably drive upward price adjustment in the medium term. Thus, we highlight some key issues that could shape the sector's performance over the short to medium term.

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External Pressures to Spur Increased Backward Integration

The restriction in global trade, currency pressures and FX liquidity challenges could have a drastic domino effect on the sector's supply chain in the near term, with impact on production volumes,

raw-materials sourcing and the distribution of finished products, among others. With brewers' reliance on FX mostly for the importation of raw materials (hops and malted barley) as well as packaging materials (such as aluminium cans), we expect margins to remain strained on elevated currency risk. Hence, we anticipate to see increased efforts towards the regionalisation of supply chains to improve the use of locally sourced inputs, limiting the impact of FX pressures on production costs and input shortages. Whilst we note the progress made thus far, we highlight that enhancing the efficiency and sustainability of a localised supply chain in the medium to long term remains crucial for reducing exposure to external pressures.

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Faltering Consumer Confidence to Slow Recovery

With the lockdown and social distancing measures adopted to contain the spread of the pandemic, on-trade sale (pubs, bars, clubs, hotels, etc.) of alcoholic drinks which account for about 60.0% of total sales, has been severely impacted. Considering that these containment measures could be lengthy and consumer behavior could shift, demand would remain weak. Similarly, as consumers adjust to the reality of the pandemic, confidence would be tempered while the long-standing pressure on consumer wallets would keep spending below pre-crisis levels, thus slowing the sector's performance.

...as the FG aggressively seeks to shore up non-oil revenue, the possibility of tighter fiscal regulation in the medium term cannot be ignored. Price hike would however cushion the impact of higher taxes on revenue, but this would not come easy as brewers' position to restore dampened consumers' confidence induced by the pandemic.

VAT and Excise Duties would Drag Margins

The value added tax (VAT) rate was increased by the federal government (FG) from 5.0% to 7.5% in February 2020, to support the implementation of the ₦30,000.00 new minimum wage in Nigeria. In an earlier move, NB and GUINNESS reacted to the new VAT policy by effecting an average of 3.0% hike in the retail price of brewery products in January 2020. Nonetheless, with excise duty burden in the face of heightened exchange rate instability, brewers would have to contend with additional cost pressures induced by the new VAT regime. More so, as the FG aggressively seeks to shore up non-oil revenue, the possibility of tighter fiscal regulation in the medium term cannot be ignored. Price hike would however cushion the impact of higher taxes on revenue, but this would not come easy as brewers' position to restore dampened consumers' confidence induced by the pandemic. Thus we expect industry earnings and margins to be severely impacted.

Increased Health-Conscious Drinking to Drive Product Innovation

The awareness by non-governmental and other health organisations against alcohol abuse and the need for healthier drinking have deepened in recent times. Similarly, traffic management agencies have intensified efforts towards educating road users on the associated dangers of alcohol abuse while in-transit. For example, the Federal Road Safety Corporation of Nigeria (FRSC) in 2019, began the testing of

alcohol levels of road drivers in some states, while brewers also continued sensitization drives on responsible drinking. We note brewers' continuous efforts towards expanding product portfolios to include healthier drinking options such as the Adult Premium Non-Alcoholic Drinks (APNADs) and Ready-to-Drink (RTDs) products and stem the impact on demand. Looking ahead, we expect this trend to be strengthened particularly with the increase awareness on the need to maintain healthier lifestyle as well as boost the immune system and reduce exposure to the pandemic.

Leveraging Nigeria's Strong Demographic Dividend for Growth

Nigeria's large population presents a compelling case for brewery companies. The United Nation's (UN) World Population Prospects (WPP) 2019 report estimates Nigeria's population at 206 million people, projecting an increase to 401 million to become the third most populous country in the world by 2050. Furthermore, with an estimated median age of 18.5 years and c.54.9% of the population between 15 to 64 years by 2025, according to the report, we believe rising population as well as the growing number of eligible drinking age group will have positive implications for long term beer demand and industry profitability growth. Notably, 56.5% of the current population are above the minimum drinking age limit of 18 years, with a projected rise to 57.7% by 2025 and 72.6% by 2050. This would bring additional 142.9 million consumers into the market over the next three (3) decades. More so, prospects of new consumers in the medium to long term are higher with c.42.3% of the population aged 0 to 14 years, meanwhile only c.2.8% is within the 65 years and above age group. Additionally, considering Nigeria's low beer consumption per capita of 10.9 litres relative to Africa's average of 22 litres (ex-North Africa), we believe the Nigerian brewery sector has room for considerable growth. With popular beer brands, especially among Nigeria's youthful population, the potentials for long-term growth in the beer market looms large as these prospective consumers come on stream.

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Brewery Sector's Operational and Financial Performance

Sluggish Revenue Growth on Sustained Weakness in Volume

Volume growth in the brewery sector has remained weak, pressured by limited room for pricing actions amid deteriorating consumer spending. Industry revenue remained sluggish, rising marginally by 0.7% y/y in 2019, due largely to increment from INTBREW. Based on our analysis, industry revenue grew by a CAGR of 5.1% between 2017 and 2019 to ₦594.3bn from ₦511.8bn.

More recently, global and domestic macroeconomic conditions have worsened following the outbreak of COVID-19. Hence, we expect weak economic growth to weigh on consumer spending and industry earnings potentials over our forecast period. We estimate industry

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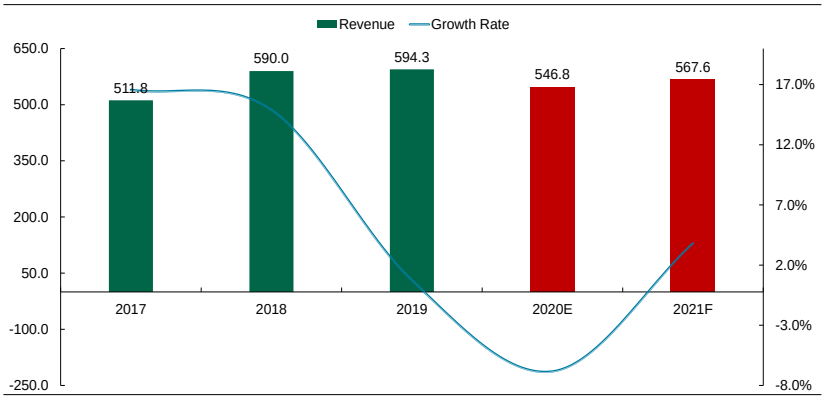
Chart 6: Industry Revenue (in ₦'bn 2017-2021F)



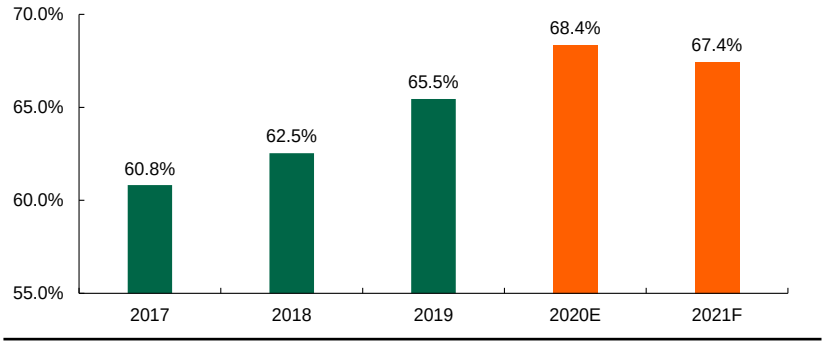
Source: Company Filings, Afrinvest Research

Rising Cost Pressures on FX Devaluation, Taxes and Raw Materials Cost

Increased cost pressure stemming from higher cost of externally-sourced raw materials such as yeast, hop and barley as well as the relentless farmer -herder clash in the North-East region and Middle-Belt dragged margins in 2019. As a result, the industry's cost to sales ratio rose faster by 2.9% to 65.5% y/y in 2019, from 62.5% in the prior year. Similarly, average industry cost to sales ratio between 2018 and 2019 was higher at 64.0% relative to the 58.7% recorded between 2016 and 2017.

We expect FX volatility and the disruptions to global supply chains to exert more upward pressure on the cost of externally-sourced brewing materials. Additionally, industry players would have to grapple with higher energy cost and increased tax obligations (VAT and excise duties) in 2020. Consequently, we estimate industry cost to sales ratio to peak at 68.2% in 2020 but decline to 65.9% over our 5-year forecast period as revenue growth improves due to gradual price adjustments by industry players.

Chart 7: Average Cost to Sales Ratio(2017-202F)



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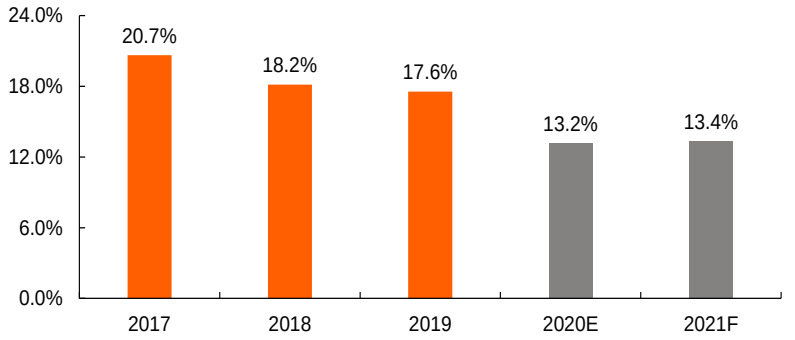
EBITDA Dragged by Cost Pressures

A sluggish revenue growth amid elevated production costs and higher operating expenses (OPEX) dragged industry EBITDA (ex-INTBREW) in 2019. OPEX rose slightly by 1.8% y/y to ₦130.0bn as brewers incurred higher marketing and distribution expenses across the board to grow sales. Notably, Nigeria's challenging business environment continues to weigh on brewers operating costs as factors such as port congestion and poor road infrastructure drives higher marketing and distribution costs. Consequently, OPEX ratio to 27.2% in 2019 from 26.6% in 2018, while industry EBITDA moderated 3.8% y/y to ₦85.7bn in 2019, dragged mainly by a 15.8% y/y reduction in EBITDA from GUINNESS. Likewise, EBITDA margin declined to 17.6% in 2019 from 18.2% in 2018.

In 2020, we anticipate industry EBITDA to plummet by 32.2% to ₦58.1bn, driven by higher marketing and distribution expenses as brewers scout for market share. Meanwhile EBITDA margin would settle at 13.2% and is projected to average 13.1% over our forecast period due to higher operating expenses.

Chart 8: Average Industry EBITDA Margin (2017-2021F)



Source: Company Filings, Afrinvest Research

Profitability to Rebound in FY:2020

The industry's profit before tax (PBT) contracted to ₦7.0bn in 2019 from ₦31.3bn in the previous year, driven by the outsized ₦37.4bn loss recorded by INTBREW. In addition, PBT moderated across the board as NB and GUINNESS suffered a 20.6% y/y and 28.6% y/y decline respectively. This reflects the impact of competitive and regulatory pressures on revenue and cost profile.

In 2020, industry PBT will be dampened by weaker consumer spending, volume growth constraints as well as cost burdens amid limited room for price increase. Nonetheless, we note that a significant reduction in INTBREW's loss before tax would support a rebound to profitability despite further moderation in PBT for NB and GUINNESS. As a result, we forecast a PBT of ₦5.3bn in 2020 and a faster rise to ₦16.8bn in 2021.

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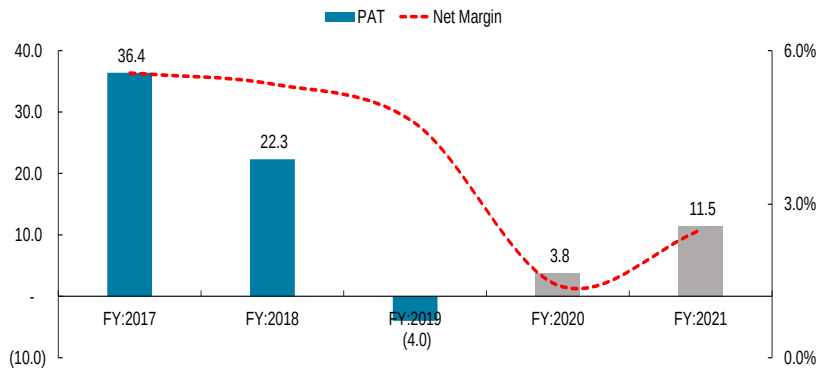
Industry ROE would remain Tepid

In decomposing the industry ROE (ex-INTBREW) for 2019 using DuPont analysis, we noted a moderation in net margin across the board. There was a decline in average industry net margin to 4.6% from the 5.3% recorded in 2018. Asset turnover, on the other hand, slowed to 0.8x from 0.9x in 2018, suggesting broad underutilisation of assets for revenue generation. However, industry financial leverage remained flattish at 2.0x in 2019, although we note NB's continuous debt issuance for working capital financing. Accordingly, average ROE decline to 7.9% in 2019 from 9.7% in 2018.

We forecast a significant moderation in average industry net margin at 1.4% in 2020 but with slight recovery to 2.5% in 2021, on the back of weaker earnings due to COVID-19 spillovers. Asset turnover, on the other hand, would marginally decline to average 0.81x between 2020 and 2021 given slower growth in industry assets and revenue. Meanwhile, we estimate average industry financial leverage to increase to 1.86x in 2020 (and 1.93x in 2021) given that the pandemic would induce more strain on cash flow. We expect the funding gap to be plugged with issuances in the debt market. Accordingly, we project a significant downtrend in industry ROE to 2.3% in 2020. However, as net margin improves, industry ROE would rise to 4.2% in 2021, then average 5.6% over our forecast period.

Chart 9: Industry PAT (in ₦'bn) and Net Margin (2017-2021F)



Source: Company Filings, Afrinvest Research

Brewery Sector Pricing and Valuation

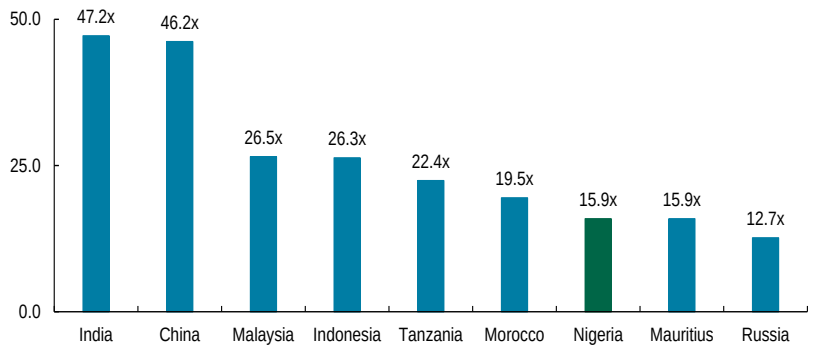
In line with the weak valuation of the Nigerian stock market and the Consumer Goods index, the current pricing of brewery companies under our coverage is at discounted levels (of an all-time low). We believe this reflects the weak outlook on the sector and the risky macroeconomic environment. With an industry average Price-to-Earnings (P/E) ratio of 15.9x, the pricing of the Nigerian brewery sector compares favourably to selected emerging and frontier market peers – India (47.2x), China (46.2x), Malaysia (26.5x), Indonesia (26.3x) Tanzania (21.3x), Morocco

...we project a significant downtrend in industry ROE to 2.3% in 2020. However, as net margin improves, industry ROE would rise to 4.2% in 2021, then average 5.6% over our forecast period.

With an industry average Price-to-Earnings (P/E) ratio of 15.9x, the pricing of the Nigerian brewery sector compares favourably to selected emerging and frontier market peers...

(19.5x), Mauritius (15.9x), Russia (12.7x), amongst others.

Chart 10: P/E Ratio — Emerging and Frontier Markets



Source: Bloomberg, Afrinvest Research

In the short term, we maintain a cautious stance on the brewery sector, largely due to the weak prospect for volume growth as consumer sentiment (especially towards on-trade channels) worsens due to the pandemic. Accordingly, we rate NB as 'ACCUMULATE' and GUINNESS a "SELL". For NB, amid unrelenting competition threatening its market leadership, the lockdown and restriction of economic activities would drag revenue and profitability in 2020. However, fundamentals remain attractive as 59.4% CoS ratio below industry average of 65.5% suggests strong operational efficiency relative to peers. Our rating on GUINNESS is premised on persistent cost pressures, additional burden from excise duty on Spirits and rising finance costs.

Also, the management's profit warning in June 2020 following the perceived negative impact of COVID-19 on its production and revenues across all business segments as well as an expected asset impairment supports our projection of significant earnings pressure and very weak profitability in 2020. On the other hand, INTBREW is 'UNRATED' as the company remains beset with significant cost challenges despite better volume and revenue growth relative to peers. Thus, we are not optimistic of a near term return to profitability in the wake of new headwinds to growth.

In the short term, we maintain a cautious stance on the brewery sector, largely due to the weak prospect for volume growth as consumer sentiment (especially towards on-trade channels) worsens due to the pandemic.

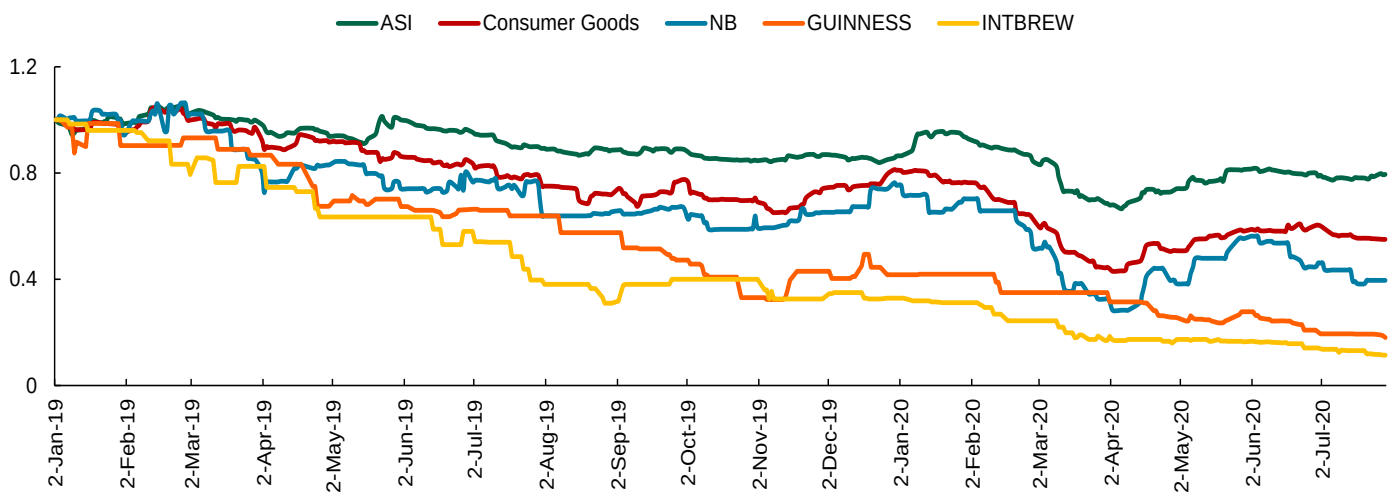
INTBREW is 'UNRATED' as the company remains beset with significant cost challenges despite better volume and revenue growth relative to peers. Thus, we are not optimistic of a near term return to profitability in the wake of new headwinds to growth.

Chart 11: Sector Summary—Coverage Universe 2019E & Actuals

2019 Estimates and Actual	NB	GUINNESS	INTBREW
Financial Highlights			
Revenue (N'bn)	323.0	131.5	132.4
OPEX (N'bn)	(97.1)	(31.9)	(58.1)
EBITDA (N'bn)	66.6	19.1	(2.8)
PBT (N'bn)	23.4	7.1	(37.4)
PAT (N'bn)	16.1	5.5	(25.6)
Operating and Profitability Margins			
OPEX Margin	30.0%	24.3%	43.9%
EBITDA Margin	20.6%	14.5%	-2.1%
PBT Margin	7.2%	5.4%	-28.3%
Dupont Analysis			
ROE	9.6%	6.2%	nm
Net Margin	5.0%	4.2%	-19.3%
Leverage	2.28	1.81	38.98
Asset Turnover	0.84	0.82	0.42
Valuation Metrics			
Current TP	37.1	10.8	nm
Previous TP	71.2	67.6	40.6
Rating	ACCUMULATE	SELL	nm
Current Price	31.0	13.0	3.8
Upside/Downside Potential	19.6%	-17.0%	nm
Valuation Assumptions			
Risk Free Rate	11.9%	11.9%	11.9%
Beta	1.4	0.6	0.6
Cost of Equity	30.5%	20.4%	20.3%
Sustainable Growth Rate	2.0%	2.0%	2.0%
Market Pricing Metrics			
P/E	29.4	19.1	nm
P/BV	2.8	0.7	nm
EV/EBITDA	10.6	8.7	nm

Source: Company Financials, Afrinvest Research

Chart 12: Sector Price Chart— Coverage Universe (January 2019— July 2020)



Source: Bloomberg, NSE, Afrinvest Research

AFRINVEST SECURITIES

Company Analysis
August 2020

Nigerian Breweries Plc

Declining Profitability on Weak Volume Growth

Company Overview

Nigerian Breweries Plc with an installed brewing capacity of c.21.2mhl and 54.3% of industry market share by revenue as at 2019 has sustained its dominance as the market leader. The company has about 74 years of operating experience in Nigeria with nine (9) brewery plants, two (2) malting plants and two (2) distribution centres. NB runs a diversified product portfolio of alcoholic and non-alcoholic beverages, currently in the market with about sixteen (16) brands in the different segments of Lager, Stout and Malt. This is down from nineteen (19) in 2018, following cessation of the production of Maltex, Strongbow which was introduced in 2015 and Stella launched in 2017, due mainly to weak performance as a result of competition. Despite the increased rivalry in 2019, we note that NB's volume growth was upbeat in the Malt and premium Lager categories, although revenue remained challenged in line with industry trend. At the latest investors' call, NB's management hinted at the commencement of production of Polyethylene Terephthalate (PET) bottles by April 2020. We expect this to support output and profitability if implemented.

Operational and Financial Performance

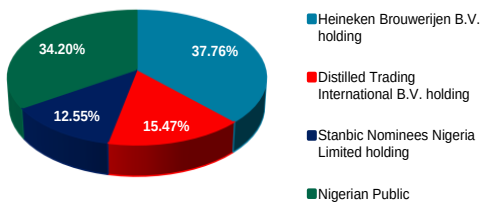
NB's revenue sustained a downtrend in 2019, declining 0.4% y/y to ₦323.0bn from ₦324.4bn in 2018 due to weaker sales in Q4:2019. With weaker volume growth, the company's price increase at the wholesale level in November 2019 was not implemented quickly enough to drive meaningful revenue growth. Notably, cost of sales further declined by 2.9% y/y to ₦191.8bn from ₦197.5bn in 2018, driven mainly by a 4.1% reduction in raw materials and consumable costs. NB's management noted that 52.5% of locally sourced raw materials were utilised in 2019, down from 58.0% in 2018, thus implying externally sourced inputs constituted about 47.5%. We suspect that the moderation in raw materials cost was driven by the stable exchange rate and lower price of inputs such as Sorghum (down 4.2% y/y in 2019). Furthermore, NB maintained its position as the industry cost leader as cost to sales ratio declined to 59.4% (from 60.9% in 2018), lower than the industry average of 65.5%.

Conversely, operating expenses (OPEX) was up 6.8%, driven by a 10.9% y/y rise in marketing and distribution costs, indicating the company's drive to improve market share and retain industry leadership. The rise in OPEX dragged operating profit by 4.7% y/y to ₦35.2bn in 2019. The OPEX ratio increased to 30.1% in 2019 from 28.0% in the previous year while EBITDA margin was slightly up by 14bps to 20.6% y/y. Noteworthy, NB's finance costs spiked 53.5% y/y to ₦12.2bn in 2019, driven by a 26.5% y/y growth in interest-bearing liabilities to ₦54.0bn, which was mainly used to finance the backlog of its foreign payables.

Table 13: Stock Data and Valuation

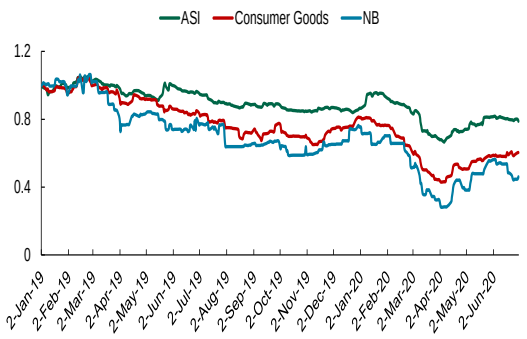
Company Data	
Ticker (NSE)	NB
Ticker (Bloomberg)	NB NL Equity
Market Price (29/07/2020)	31.0
2020 Target Price	37.09
Rating	ACCUMULATE
Upside Potential	19.6%
12-Month High (N)	59.8
12-Month Low (N)	22.0
Outstanding Share (bn)	8.0
Market Cap (N'bn)	255.9
Market Cap ($'m)	0.66
6-Month Avg. Volume (mn)	3.8
6-Month Avg. Value (N'm)	145.1
6-Month Avg. Value ($'m)	0.37
Trailing EPS (N)	1.7
Trailing P/E (x)	17.7
Forward P/E (x)	16.5

Chart 14: Shareholding Structure



Source: Company Filings, Afrinvest Research

Chart 15: NB vs NSE ASI and Consumer Goods index



Source: Bloomberg, Afrinvest Research

Consequently, Profit Before Tax (PBT) and Profit After Tax (PAT) declined by double-digit at 20.6% y/y and 17.1% y/y to ₦23.4bn and ₦16.1bn respectively.

In 2020, we estimate that NB's revenue would decline 7.5% y/y to ₦298.9bn, on the back of sustained moderation in volume. Despite increasing retail prices in January 2020 to pass on the new VAT increment to consumers. We note that the impact on earnings was not significant given consumers' near term resistance to price increases due to pressured wallets and the lower sales recorded in Q2:2020. For context, revenue tapered 21.0% q/q to ₦68.7bn in Q2:2020 from ₦86.9bn in the previous period, reflecting the impact of the lockdown and closure of significant trade channels. As a result, topline growth in H1:2020 declined 10.8% y/y to settle at ₦151.8bn from ₦170.2bn in H1:2019. By 2021, we expect a soft recovery as we forecast a modest 2.1% growth in revenue.

On the cost side, although we note the company's continuous effort towards localising supply chain (particularly with Sorghum), we expect elevated cost pressures as FX devaluation and trade protectionist sentiment poses threat to the importation of inputs (currently at 47.5%). However, as at H1:2020 cost to sales ratio remained modest at 57.9%. We believe this is yet to reflect the impact of rising FX challenges and cost pressures would become clearer in subsequent quarters . Thus, we forecast an increase in cost to sales ratio to 63.7% in 2020, but would ease to 61.5% by 2021 on the expectation of moderate FX risks. With heightened uncertainty in the operating environment, we expect NB to tighten its grip on efficiency, although the pace of promotional activities is expected to be sustained. Thus, we estimate that OPEX would decline to ₦91.2bn in 2020 while OPEX ratio would settle at 30.5%, 45bps higher than in 2019. Our projection of a weak operating performance in 2020 is evident in our estimate for EBIT and EBITDA margins at 15.4% and 6.1% respectively, but with soft recovery in 2021 to 17.2% and 7.9% respectively. Consequently, we forecast a 62.0% decline in PAT to ₦6.1bn in 2020 and an improvement to ₦10.5bn by 2021.

Table 16: Financial Highlights

	FY:2018A	FY:2019A	FY:2020F
Revenue (N'bn)	324.4	323.0	298.9
EBITDA (N'bn)	66.5	66.6	46.0
Pre-tax Income (N'bn)	29.4	23.4	8.8
Net Income (N'bn)	19.4	16.1	6.1
Total Assets (N'bn)	388.3	382.8	371.9
Shareholder Funds (I	166.8	167.7	167.8
OPEX Ratio (%)	28.0%	30.1%	30.5%
Cost of Sales Ratio (	60.9%	59.4%	63.7%
EBITDA Margin (%)	20.5%	20.6%	15.4%
PAT Margin (%)	6.0%	5.0%	2.1%
ROAE (%)	11.3%	9.6%	3.7%
ROAA (%)	5.1%	4.2%	1.6%
EPS (N)	2.43	2.01	0.77
DPS (N)	2.43	2.01	0.77
Earnings Yield (%)	1.6%	3.4%	1.3%
Dividend Yield (%)	1.6%	3.4%	1.3%

ROE Tapers as Net Margin Underperforms

In 2019, NB's ROE declined to 9.6% from 11.7% in the prior year. The company's net margin, an important driver of its ROE, further moderated from 6.0% in 2018 to 5.0% in 2019, driven by the continuous moderation in revenue and PAT. We expect net margin to dip further to 2.1% in 2020, before recovering to 3.5% in 2021 due to sluggish earnings growth. Asset turnover, on the other hand, remained unchanged at 0.84x between 2018 and 2019, suggesting weak utilisation of company's assets for revenue generation. From our analysis, asset turnover would remain little changed at an average 0.80x between 2020 and 2021 due to pressured topline. Furthermore, the company's financial leverage fell marginally by 5bps to 2.2x in 2019

as net assets rose faster, supported by the decrease in the company's debt stock, while total assets declined. We estimate NB's financial leverage to settle at 2.22x in 2020 and 2.26x in 2021, following slight increases in net assets and total assets across the board. Consequently, we forecast a significant decline in ROE to 3.6% in 2020 as net margin tapers.

Outlook and Valuation: TP Forecasted at ₦37.09; NB Rated 'ACCUMULATE'

In line with the overall industry, our outlook for NB's operations in 2020 remains weak given an expected decline in consumer spending due to social distancing and other measures in place to limit the spread COVID-19. We valued NB using a blend of absolute and relative valuation methodologies including the Dividend Discount Model (DDM), Free Cash Flow to Equity (FCFE) as well as the EV/EBITDA and Price-to-earnings (P/E) valuation, assigning a weight of 30.0%, 10.0%, 40.0% and 20.0% respectively. Our assumptions include a cost of equity of 30.55% (using adjusted beta of 1.67, risk free rate of 11.9% and a risk premium of 13.3%) and a 2.0% sustainable growth rate. Using DDM, we assumed an average pay-out ratio of 77.3% based on NB's consistent dividend payment record, with a fair value of ₦7.63. Meanwhile, the FCFE valuation resulted in a fair value of ₦9.08, given weakness in NB's estimated cash flow. In our relative valuation of NB, the P/E valuation was derived using average P/E multiple of 24.7x alongside an EPS projection of 0.77 for a fair value of ₦18.99 while a fair value of ₦54.23 was derived using the EV/EBITDA valuation. Consequently, we arrived at a 12-month target price of ₦37.09, implying an upside potential of 19.6% from the current price of ₦31.00 (as at July 29, 2020). Thus, we place an 'ACCUMULATE' rating on NB.

Chart 17: Valuation Summary

Valuation Methodologies		Weighting
Relative Valuation Methodology		
EV/EBITDA Valuation Methodology		
Average EV/EBITDA	10.58x	
Forecast EBITDA	45,954,262	
Enterprise Value	486,047,769.67	
Target Price (adjusted for cash & Debt)	54.23	75.0%
P/E Valuation Methodology		
*Valuation P/E	24.70x	
Forecast EPS	0.77	
Target Price	18.99	
Absolute Valuation Methodology		
Valuation Metrics		
Risk Free Rate (%)	*11.9%*	
Beta	*1.67*	
Cost of Equity (%)	*30.5%*	25.0%
Sustainable Growth Rate (%)	*2.0%*	
Dividend Discount Model (DDM)	6.22	
Free Cash Flow to Equity (FCFE)	9.08	
Blended Target Price		NGN 37.09
Upside/Downside Potentials		19.6%

AFRINVEST

SECURITIES

Guinness Nigeria Plc

Weak Profitability amid Low Volumes & Asset Impairment

Company Overview

Guinness Nigeria Plc with an installed capacity of c.8.6mhl and a market share of 22.1% ranks as the third largest brewer in Nigeria by capacity and revenue as at 2019. The company's product portfolio includes several well-known brands of alcoholic and non-alcoholic drinks in the Spirits, Stout, Lager, Malt and RTDs categories. Notably, the adoption of a total beverage alcohol portfolio in 2018 has positioned GUINNESS to better withstand competition in the sector. In FY:2019, the company received approval from Diageo Plc to locally brew and export international brands such as Baileys Delight, Gordons, McDowell and Smirnoff, thus creating new opportunities for topline growth. However, in line with industry outlook, GUINNESS faces challenges stemming from fragile consumer spending, excise duty and tax increments as well as its elevated cost profile. We see significant margin pressure amid rising cost and declining profitability.

Operational and Financial Performance

GUINNESS' revenue declined by 8.0% to ₦131.5bn in 2019 from ₦143.0bn in 2018, following weaker sales volume and higher excise duties. According to Management, revenue was largely buoyed by Spirits and APNADs while lager and RTD contracted significantly, stemming from suboptimal returns from Satzenbrau and Harp, which dragged gains in other categories. Growth in Mainstream Spirit Segment (MSS) was mainly driven by stronger performance from Baileys Delight, Gordon's, Orijin, Orijin Gin as well as Smirnoff X1, while the sale of McDowell's declined following a 3-4 months cessation of shipment due to brand restructuring carried out during the year. Similarly, the Johnnie Walker range of brands supported growth in the IPS segment.

Cost of sales declined by 3.2% y/y to ₦91.4bn, driven by a 12.2% moderation in raw materials and consumables costs as well as lower fixed cost absorption. However, cost to sales ratio remained elevated at 69.5%, up from 66.0% in 2018 and higher than industry average of 65.5% following slower revenue growth. Additionally, lower marketing and distribution expenses drove a 19.3% y/y decline in OPEX to ₦21.5bn from ₦26.7bn in the prior year, taking OPEX ratio lower to 16.4% from 18.7% in 2018. Furthermore, operating profit dipped 33.0% y/y, dragged by the ₦3.1bn recognized as Royalties and Technical Service Fees which had accrued between 2017 and 2018. Meanwhile EBITDA settled at ₦19.1bn with a soft moderation in EBITDA margin to 14.5%. Finance cost plunged 53.7% y/y to ₦2.6bn from ₦5.6bn in 2018, reflecting the full impact of the ₦40.0bn rights issue (completed in 2018) utilised to offset foreign currency loans. Consequently, PBT fell 28.6% y/y to ₦7.1bn from ₦9.9bn in 2018, while PAT declined 18.4% y/y to settle at ₦5.5bn from ₦6.7bn in the prior year.

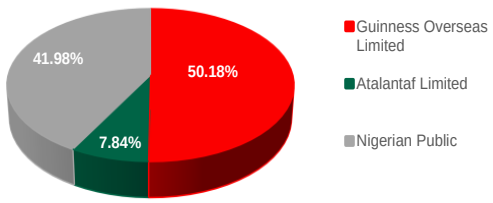
Company Analysis

August 2020

Table 18: Stock Data and Valuation

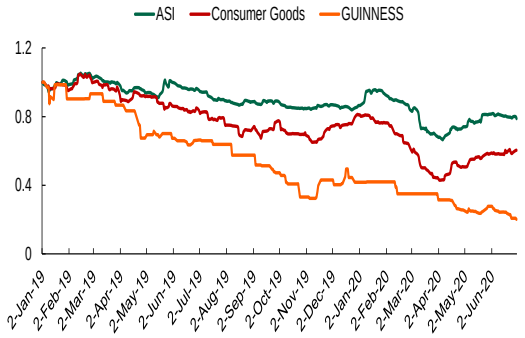
Company Data	
Ticker (NSE)	GUINNESS
Ticker (Bloomberg)	GUINNESS NL Equity
Market Price (29/07/2020)	13.0
2020 Target Price	10.79
Rating	SELL
Downside Potential	-17.0%
12-Month High (N)	46.0
12-Month Low (N)	12.85
Outstanding Share (bn)	2.2
Market Cap (N'bn)	29.6
Market Cap ($'bn)	0.08
6-Month Avg. Volume (mn)	1.6
6-Month Avg. Value (N'm)	27.9
6-Month Avg. Value ($'m)	0.07
Trailing EPS (N)	1.2
Trailing P/E (x)	10.46
Forward P/E (x)	13.2

Chart 19: Shareholding Structure



Source: Company Filings, Afrinvest Research

Chart 20: GUINNESS vs NSE ASI and Consumer Goods index



Source: Bloomberg, Afrinvest Research

As at 9M:2020, GUINNESS revenue declined by 5.3% y/y to ₦96.0bn from ₦101.4bn, driven by a 78.6% y/y decline in export volumes. Notably, the reduction in export volumes was due to a halt in the production of Malta Guinness for Guinness Ghana Breweries Limited, following the latter's investment in a canning line which led to a drop in volumes. Also, GUINNESS management announced the shutdown of two of its production sites in Nigeria following the impact of the COVID-19 pandemic. In June 2020, management issued a profit warning citing the harsh impact of COVID-19 on production and revenue. Similarly, the company disclosed its intention to carry out a comprehensive review of its asset base which would see to the impairment of certain categories of asset which hitherto had yielded suboptimal returns. We suspect that this impairment could be related to assets used in mainstream and economy lager production which have been a drag on revenue. For context, growth in the Lager and RTD segments contracted by 47.0% in FY:2019 and has remained tepid in 2020. Furthermore, GUINNESS runs a July to June calendar year which means its 9M:2020 operations does not yet capture the impact of COVID-19. Hence, considering the lockdown and economic restrictions in Q2:2020, we believe sales (particularly on-trade channels) were low industry-wide during the quarter. Thus, we expect Guinness last quarter earnings to be more reflective of the full impact of the pandemic. Consequently, we estimate that topline would drop by 16.3% y/y to ₦110.0bn in FY:2020.

On the cost side, the company's sustained efforts towards improving efficiency, reflected in the 6.6% y/y moderation in cost of sales to ₦65.2bn from ₦69.9bn in 9M:2019. Hence, cost to sales ratio declined to 67.9% y/y from 68.9% in 9M:2019. We anticipate further cost pressures in FY:2020 and FY:2021 on FX challenges, with cost to sales ratio forecast to trend higher at 71.8% and 73.0% respectively. OPEX on the other hand, rose by 4.9% y/y to ₦26.0bn in 9M:2020 from ₦24.8bn in the prior period, following increased spending on marketing, distribution and administrative overheads. Also, we note a significant resurgence in finance costs by 97.1% y/y to ₦3.6bn relative to ₦1.8bn in 9M:2019, arising from loss on the re-measurement of foreign currency loans. Looking ahead, we expect increased interest payment burden albeit moderate, following the company's June 2020 visited to the debt market to access ₦2.5bn in commercial papers possibly to refinance maturing short term debt. Also, OPEX ratio would slightly moderate to 24.2% while EBIT and EBITDA margin is expected to decline to 3.9% and 11.0% respectively. PBT trended lower by 68.3% y/y in 9M:2020 to ₦2.0bn from ₦6.3bn in the corresponding period while PAT also fell by 67.4% y/y to ₦1.4bn from ₦4.3bn in 9M:2019. Given the expectations of very weak earnings as well as cost pressures, we estimate that PBT and PAT would plunge by 85.6% y/y and 84.4% y/y to ₦1.0bn and ₦857.3m respectively in FY:2020.

Table 21: Financial Highlights

	FY:2018A	FY:2019A	FY:2020F
Revenue (N'bn)	143	131.5	110.0
EBITDA (N'bn)	22.6	19.1	12.1
Pre-tax Income (N'bn)	9.9	7.1	1.0
Net Income (N'bn)	6.7	5.5	0.9
Total Assets (N'bn)	153.3	160.8	135.4
Shareholder Funds (N'bn)	87.6	89.1	89.5
OPEX Ratio (%)	25.1%	24.3%	24.2%
Cost of Sales Ratio (%)	66.0%	69.5%	72.3%
EBITDA Margin (%)	15.8%	14.5%	11.0%
PAT Margin (%)	4.7%	4.2%	0.8%
ROAE (%)	7.7%	6.2%	0.9%
ROAA (%)	4.4%	3.4%	0.6%
EPS (N)	4.46	3.64	0.39
DPS (N)	0.64	1.84	0.17
Earnings Yield (%)	5.4%	12.1%	1.2%
Dividend Yield (%)	0.8%	6.1%	2.2%

DuPont Analysis… ROE Dragged by Asset Turnover and Net Margin

In FY:2019, GUINNESS ROE declined to 6.2% y/y from 7.7% in the previous year, driven by slower growth in revenue and PAT. Net margin fell to 4.2% relative to 4.7% in the prior year while asset turnover declined to 0.8x from 0.9x in FY:2018, although remained above industry average of 0.7x but still suboptimal (at less than 1.0x). Furthermore, the company's financial leverage ratio improved to 1.81x from 1.75x in FY:2018, following increases in debt and total assets.

We expect ROE to be significantly pressured in FY:2020, declining further to 1.9%, driven by moderation in net margin to 1.3% based on weaker net income. We see a slow recovery to 2.1% by FY:2021, following a marginal rise in net assets. However, we expect asset turnover to remain flattish at 0.8x between FY:2020 and FY:2021, while financial leverage would slightly rise to 1.82x in FY:2020, before falling to 1.75x in FY:2021 due to moderation in debt liabilities.

We expect ROE to be significantly pressured in FY:2020, declining further to 1.9%, driven by moderation in net margin to 1.3% based on weaker net income. We see a slow recovery to 2.1% by FY:2021, following a marginal rise in net assets.

Outlook and Valuation: TP Projected at ₦10.79; Rated a 'SELL'

Amid increased uncertainties around consumer behaviour, we expect GUINNESS to benefit from its dominance in the spirit segment (with its MSS accounting for c.70.0% of the total spirits market). However, we note that beer category accounted for c.80% of revenue while contribution from Spirits remain slow-paced at c.18.0% as at FY:2019. The profit warning by management indicates a harsh operational performance. In our view, GUINNESS would have to tame its high cost position to support earnings.

We arrived at a fair valuation of GUINNESS using absolute and relative valuation methodologies with weightings of 65.0% and 35.0% respectively. The assumptions guiding our valuation include a cost of equity of 20.40% (using adjusted beta of 0.40, risk free rate of 11.9% and a risk premium of 13.3%) and a 2.0% sustainable growth rate. In the absolute valuation method, we adopted the DDM valuation consistent with GUINESS' consistent dividend pay out, thereby obtaining a fair value of ₦3.94. Also, we used the FCFE to arrive at a fair value of ₦4.76. For the relative valuation, we applied P/E of 12.02x to our forecast EPS of 0.39 to arrive at a fair value of ₦4.70 while the EV/EBITDA valuation delivered a fair value of ₦68.50. Having applied the respective weights to the methodologies, we realised a blended 12-month target price of ₦10.79, which implies a 17.0% downside potential from the current price of ₦13.00 (as at July 29 2020). Hence, we recommend a 'SELL' rating on GUINNESS.

Chart 22: Valuation Summary

Valuation Methodologies		Weighting
Relative Valuation Methodology		
EV/EBITDA Valuation Methodology		35.0%
Average EV/EBITDA	8.67x	
Forecast EBITDA	19,059,739	
Enterprise Value	165,214,219.44	
Target Price (adjusted for cash & Debt)	68.50	
P/E Valuation Methodology		
*Valuation P/E	12.02x	
Forecast EPS	0.39	
Target Price	4.70	
Absolute Valuation Methodology		
Valuation Metrics		65.0%
Risk Free Rate (%)	*11.9%*	
Beta	*0.40*	
Cost of Equity (%)	*20.4%*	
Sustainable Growth Rate (%)	*2.0%*	
Dividend Discount Model (DDM)	3.94	
Free Cash Flow to Equity (FCFE)	4.76	
Blended Target Price		NGN 10.79
Upside/Downside Potentials		-17.0%

AFRINVEST SECURITIES

Company Analysis
August 2020

NIGERIAN BREWERIES PLC

NIGERIAN BREWERIES PLC	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Financial Metrics						Forecast Horizon				
Turnover	293,905,792	313,743,147	344,527,216	324,388,500	323,007,470	298,920,700	305,198,035	312,522,788	321,898,472	328,336,441
Gross profit	144,169,720	135,524,619	143,492,580	126,903,806	131,250,957	108,508,214	117,501,244	124,227,808	131,978,373	135,602,950
EBITDA	89,124,889	81,176,170	89,812,195	66,450,586	66,608,032	45,954,262	52,547,349	59,385,366	64,751,904	67,233,554
Operating Profit (EBIT)	62,229,154	52,903,161	57,121,060	36,951,548	35,205,600	18,174,379	24,097,257	30,058,500	34,612,690	36,314,767
Profit before Tax	54,514,973	39,674,518	46,630,058	29,421,952	23,351,754	8,848,053	15,429,633	21,557,880	25,744,387	27,392,225
Profit After Tax	38,056,123	28,416,965	33,048,559	19,437,944	16,105,912	6,146,742	10,518,227	14,846,905	17,721,489	18,797,941
Non-current Asset	302,914,857	295,041,092	294,735,253	301,978,767	310,248,537	294,291,468	301,884,787	307,037,965	316,846,752	316,378,119
Total Asset	356,218,676	367,146,468	382,228,093	388,262,869	382,777,522	371,860,498	379,669,568	388,781,638	400,445,087	408,453,989
Net Asset	172,321,503	165,913,768	178,298,427	166,828,452	167,749,979	167,762,289	171,217,380	173,845,282	176,516,777	177,049,609
Margins										
Cost to Sales Ratio	50.95%	56.80%	58.35%	60.88%	59.37%	**63.70%**	**61.50%**	**60.25%**	**59.00%**	**58.70%**
Gross Profit Margin	49.05%	43.20%	41.65%	39.12%	40.63%	36.30%	38.50%	39.75%	41.00%	41.30%
OPEX Margin	28.04%	26.53%	25.72%	28.00%	30.05%	30.50%	30.90%	30.48%	30.63%	30.67%
EBITDA Margin	*30.32%*	*25.87%*	*26.07%*	*20.48%*	*20.62%*	**15.37%**	**17.22%**	**19.00%**	**20.12%**	**20.48%**
EBIT Margin	*21.17%*	*16.86%*	*16.58%*	*11.39%*	*10.90%*	6.08%	7.90%	9.62%	10.75%	11.06%
ROAE	22.11%	16.71%	19.20%	11.26%	9.63%	3.65%	6.18%	8.61%	10.12%	10.54%
ROAA	10.79%	7.95%	8.82%	5.05%	4.18%	1.63%	2.80%	3.86%	4.49%	4.65%
Liquidity Ratios										
Current Ratio (x)	0.38	0.50	0.56	0.58	0.52	0.54	0.54	0.55	0.54	0.55
Quick Ratio (x)	0.34	0.42	0.46	0.48	0.47	0.47	0.47	0.47	0.47	0.47
Cash ratio (x)	0.04	0.08	0.10	0.10	0.05	0.06	0.07	0.07	0.07	0.07
Inventory turnover (x)	5.26	6.07	5.44	5.25	5.40	4.82	4.67	4.63	4.52	4.54
Du-Pont Analysis										
ROE	*22.08%*	*17.13%*	*18.54%*	*11.65%*	*9.60%*	**3.63%**	**6.14%**	**8.54%**	**10.04%**	**10.44%**
Net Margin	*12.95%*	*9.06%*	*9.59%*	*5.99%*	*4.99%*	2.06%	3.45%	4.75%	5.51%	5.73%
Asset Turnover (x)	0.83	0.85	0.90	0.84	0.84	0.80	0.80	0.80	0.80	0.80
Leverage (x)	2.07	2.21	2.14	2.33	2.28	2.20	2.22	2.24	2.27	2.27

GUINNESS NIGERIA PLC

GUINNESS NIGERIA PLC	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Financial Metrics						Forecast Horizon				
Turnover	118,495,882	101,973,030	125,919,817	142,975,792	131,498,373	110,001,580	117,076,393	120,195,273	127,000,378	133,512,007
Gross profit	54,943,920	41,810,413	48,315,304	48,625,405	40,129,228	30,470,438	31,610,626	36,058,582	38,735,115	44,058,962
EBITDA	27,000,335	13,339,144	19,179,962	22,624,977	19,059,739	12,100,174	11,118,913	13,400,056	16,306,244	20,004,020
Operating Profit (EBIT)	15,667,379	4,415,623	10,186,330	13,386,248	8,966,036	4,324,350	4,679,711	5,587,363	7,416,218	10,391,155
Profit before Tax	10,795,102	- 2,347,241	2,662,081	9,943,164	7,103,630	1,022,784	2,077,011	2,703,481	4,557,669	7,571,734
Profit After Tax	7,794,899	(2,015,886)	1,923,720	6,717,605	5,483,732	857,298	1,706,472	2,191,407	3,571,344	6,096,668
Non-current Asset	88,735,120	89,122,609	88,811,393	98,644,921	101,448,605	91,977,849	92,102,459	97,486,175	102,667,624	108,053,712
Total Asset	122,246,632	136,992,444	146,038,216	153,254,968	160,792,627	135,417,652	144,127,113	147,966,617	156,344,054	164,360,208
Net Asset	48,341,376	41,660,605	42,943,015	87,588,174	89,060,462	89,536,251	90,483,321	91,699,524	93,681,573	97,065,145
Margins										
Cost to Sales Ratio	53.63%	59.00%	61.63%	65.99%	69.48%	**72.30%**	**73.00%**	**70.00%**	**69.50%**	**67.00%**
Gross Profit Margin	46.37%	41.00%	38.37%	34.01%	30.52%	27.70%	27.00%	30.00%	30.50%	33.00%
OPEX Margin	33.76%	37.16%	30.95%	25.11%	24.29%	24.17%	23.50%	25.80%	25.13%	25.68%
EBITDA Margin	*22.79%*	*13.08%*	*15.23%*	*15.82%*	*14.49%*	**11.00%**	**9.50%**	**11.15%**	**12.84%**	**14.98%**
EBIT Margin	*13.22%*	*4.33%*	*8.09%*	*9.36%*	*6.82%*	3.93%	4.00%	4.65%	5.84%	7.78%
ROAE	16.69%	-4.48%	4.55%	10.29%	6.21%	0.96%	1.90%	2.41%	3.85%	6.39%
ROAA	6.12%	-1.56%	1.36%	4.49%	3.49%	0.58%	1.22%	1.50%	2.35%	3.80%
Liquidity Ratios										
Current Ratio (x)	0.73	0.71	0.90	1.27	1.21	1.65	1.57	1.44	1.33	1.28
Quick Ratio (x)	0.60	0.63	0.79	1.10	1.12	1.48	1.36	1.27	1.16	1.12
Cash ratio (x)	0.13	0.09	0.10	0.17	0.10	0.17	0.21	0.17	0.17	0.16
Inventory turnover (x)	5.25	4.85	4.97	5.13	4.55	3.49	4.08	3.86	3.87	3.72
Du-Pont Analysis										
ROE	*16.12%*	*-4.84%*	*4.48%*	*7.67%*	*6.16%*	**0.96%**	**1.89%**	**2.39%**	**3.81%**	**6.28%**
Net Margin	*6.58%*	*-1.98%*	*1.53%*	*4.70%*	*4.17%*	0.78%	1.46%	1.82%	2.81%	4.57%
Asset Turnover (x)	0.97	0.74	0.86	0.93	0.82	0.81	0.81	0.81	0.81	0.81
Leverage (x)	2.53	3.29	3.40	1.75	1.81	1.51	1.59	1.61	1.67	1.69

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NIGERIAN BREWERIES PLC	NB	-
GUINNESS NIGERIA PLC	GUINNESS	-
INTERNATIONAL BREWERIES PLC	INTBREW	-

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Ratings Summary

	BUY	ACCUMULATE	HOLD	REDUCE	SELL	Total
Universe	0	1	0	0	1	2
% distribution	0.0%	50.0%	0.0%	0.0%	50.0%	100.0%

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