

August 2, 2021



Earnings Note

## Event

International Breweries reported a 70% YoY revenue growth in Q2 2021. We attribute the revenue growth to a combination of price and volume growth. On volume growth, we posit that the Company consolidated its strategy of increased market penetration, as its products continued to enjoy strong demand. On price growth, we posit that the higher input costs necessitated the need to raise prices. We also link the overall revenue growth to base effect, given a lower-than-average revenue in Q2 2020 during the peak of the coronavirus pandemic.

Cost margin improved to 79% in Q2 2021 from 87% in Q2 2020, on account of slower pace of increase in cost of sales (+56% YoY to N34.06bn). We believe that economies of scale and price realisation resulted in the lower cost margin recorded in Q2 2021.

Gross profit, therefore, rose by 165% YoY to N8.93bn in Q2 2021. Operating expense increased by 52% YoY to N11.27bn in Q2 2021, driven by higher marketing expense (+220% YoY to N4.71bn) during the period. We link this to heightened competitive pressures in the brewing industry, amid declining households' purchasing power.

Year-on-year, the Company incurred an operating loss, as operating income generated could not cover operating expenses in Q2 2021. However, the operating loss incurred in Q2 2021 (N2.33bn) was improved relative to the operating loss incurred in Q2 2020 (N4.05bn).

Non-operating loss, however, worsened by 4,631% YoY to N11.32bn in Q2 2021, resulting from realised and unrealised foreign exchange losses. This was an effect of the exchange rate devaluation that took place in the second half of 2020.

Loss before tax stood at N13.66bn in Q2 2021, from a loss of N4.29bn in Q2 2020; while loss after tax stood at N11.31bn in Q2 2021 from a loss of N3.71bn in Q2 2020.

## Second Quarter Performance Trend

Income Statement (N'mn)	Q2 2018	Q2 2019	Q2 2020	Q2 2021
<b>Revenue</b>	<b>27,144</b>	<b>33,534</b>	<b>25,266</b>	<b>42,997</b>
Cost of sales	(16,341)	(27,793)	(21,900)	(34,064)
<b>Gross profit</b>	<b>10,803</b>	<b>5,741</b>	<b>3,366</b>	<b>8,933</b>
Other income/(expense)	10	(189)	0	0
<b>Operating income</b>	<b>10,813</b>	<b>5,552</b>	<b>3,366</b>	<b>8,933</b>
Operating expenses	(9,384)	(9,180)	(7,415)	(11,266)
<b>Operating profit</b>	<b>1,429</b>	<b>(3,628)</b>	<b>(4,049)</b>	<b>(2,333)</b>
Net impairment on financial assets	0	0	14	(18)
Other gain/(losses)	(1,533)	364	1,041	(11,175)
Finance income	5	0	1	137
Finance cost	(2,587)	(1,944)	(1,295)	(269)
<b>Non-operating income/(expense)</b>	<b>(4,115)</b>	<b>(1,580)</b>	<b>(239)</b>	<b>(11,325)</b>
<b>(Loss)/Profit before tax</b>	<b>(2,686)</b>	<b>(5,208)</b>	<b>(4,288)</b>	<b>(13,658)</b>
Deferred tax	2,080	2,355	577	2,350
<b>Profit after tax</b>	<b>(606)</b>	<b>(2,854)</b>	<b>(3,711)</b>	<b>(11,309)</b>
<b>Earnings per share (NGN)</b>	<b>(0.02)</b>	<b>(0.11)</b>	<b>(0.14)</b>	<b>(0.42)</b>

Source: Company Accounts, WSTC Research

# HOLD

Fair Value Estimate:  
N4.32

## Stock Data

Current price (N)	5.10
Shares Outstanding (mn)	26,862
Market Cap (N'mn)	136,997
52-week high (N)	7.74
52-week low (N)	2.70
Trailing EPS (N)	(0.46)
Forward EPS (N)	(0.48)
Forward PE (X)	n/a
Justified PE Multiple (X)	n/a

## Price movement



## FY'19 FY'20 FY'21F

P/E (x)	N/A	N/A	N/A
P/BV (x)	5.87	0.90	0.99
PBT Margin (%)	-27.33	-18.18	-11.17
PAT Margin (%)	-21.00	-9.04	-7.60
ROE (%)	N/A	N/A	N/A
Div. Yield (%)	0.00	0.00	0.00

## Analysts

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**H1 2021 Performance**

- ✓ Revenue grew by 35% YoY to N81.96bn (Q2 2021: +70% YoY; Q1 2021: +10% YoY).
- ✓ Gross profit grew by 30% YoY to N66.54bn (Q2 2021: +165% YoY; Q1 2021: +5% YoY).
- ✓ Operating expense grew by 27% YoY to N20.24bn (Q2 2021: +52% YoY; Q1 2021: +5% YoY).
- ✓ Operating loss improved by 25% YoY to N4.83bn (Q2 2021: +42% improvement; Q1 2021: -5% worsening).
- ✓ Non-operating loss worsened by 123% YoY to N12.39bn (Q2 2021: -4,631% YoY worsening; Q1 2021: +80% YoY improvement).
- ✓ Loss before tax worsened by 44% YoY to N17.22bn (Q2 2021: -219% YoY worsening; Q1 2021: +54% YoY improvement).

**Financial Performance Summary**

Income Statement (N'mn)	H1 2018	H1 2019	H1 2020	H1 2021
<b>Revenue</b>	<b>53,110</b>	<b>68,631</b>	<b>60,614</b>	<b>81,962</b>
Cost of sales	(32,198)	(53,944)	(51,075)	(66,543)
<b>Gross profit</b>	<b>20,912</b>	<b>14,686</b>	<b>9,539</b>	<b>15,419</b>
Other income/(expense)	26	(186)	0	0
<b>Operating income</b>	<b>20,937</b>	<b>14,500</b>	<b>9,539</b>	<b>15,419</b>
Operating expenses	(18,155)	(17,998)	(15,972)	(20,244)
<b>Operating profit</b>	<b>2,782</b>	<b>(3,497)</b>	<b>(6,434)</b>	<b>(4,825)</b>
Net impairment on financial assets	(236)	0	0	(235)
Other gain/(losses)	(1,603)	0	(4,601)	(11,343)
Finance income	5	1	1,331	137
Finance cost	(6,191)	(7,030)	(2,279)	(954)
<b>Non-operating income/(expense)</b>	<b>(8,025)</b>	<b>(7,029)</b>	<b>(5,549)</b>	<b>(12,395)</b>
<b>(Loss)/Profit before tax</b>	<b>(5,243)</b>	<b>(10,526)</b>	<b>(11,983)</b>	<b>(17,220)</b>
Taxes	2,396	3,685	2,625	3,332
<b>Profit after tax</b>	<b>(2,846)</b>	<b>(6,841)</b>	<b>(9,357)</b>	<b>(13,888)</b>
<b>Earnings per share (NGN)</b>	<b>(0.11)</b>	<b>(0.25)</b>	<b>(0.35)</b>	<b>(0.52)</b>

**Source:** Company Accounts, WSTC Research

**Outlook**

The performance of the Company in Q2 2021 was largely in line with our expectations, although the FX losses incurred were above our expectations. In terms of core operations, we noted improvements made by the Company in its market expansion drive. We also posit that the increased marketing spend was in view to drive topline growth.

Going forward, we maintain our position that the Company's market expansion focus will be accretive to topline. However, the Company still faces significant cost pressures due to its soft pricing, relative to industry peers. Hence, we raise our cost margins projections to reflect our expectations of higher cost pressures in the near to medium term.

Our updated fair value for the stock is N4.32 ([previous](#): N4.80). The stock currently trades at a 15% premium to our fair value estimate. We recommend a SELL.

## Financial Projections

Income statement (NGN mn)	FY 2019	FY 2020	FY 2021F	FY 2022F	FY2023F	FY 2024F	FY 2025F
Revenue	132,352	136,791	170,268	192,402	215,491	237,040	260,744
EBITDA	12,454	24,046	32,336	47,564	57,745	67,762	75,094
EBIT	(17,593)	(7,391)	(6,350)	3,636	8,620	13,701	15,645
Profit before taxation (PBT)	(36,167)	(24,873)	(19,025)	156	1,905	8,725	11,658
Net profit (PAT)	(27,791)	(12,365)	(12,937)	106	1,295	5,933	7,927
EPS (₺)	-3.23	-0.46	-0.48	0.00	0.05	0.22	0.30
DPS (₺)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Balance sheet (NGN mn)	FY 2019	FY 2020	FY 2021F	FY 2022F	FY2023F	FY 2024F	FY 2025F
Current assets	81,586	92,687	104,163	128,373	120,489	113,452	128,940
Non-current assets	283,561	279,959	267,017	256,143	247,206	239,757	231,563
Total assets	365,147	372,646	371,180	384,516	367,695	353,210	360,503
Current liabilities	204,106	217,922	104,955	105,780	116,426	120,697	124,704
Non-current liabilities	153,577	2,991	127,428	139,833	111,070	86,380	81,740
Shareholders' equity	7,464	151,734	138,797	138,903	140,199	146,132	154,059
Book value per share (₺)	0.87	5.65	5.17	5.17	5.22	5.44	5.74
Cash flow statement (NGN mn)	FY 2019	FY 2020	FY 2021F	FY 2022F	FY2023F	FY 2024F	FY 2025F
Cash from operating activities	40,743	52,228	19,400	42,974	63,171	65,306	71,021
Cash from investing activities	(56,845)	(29,959)	(25,744)	(33,054)	(40,188)	(46,613)	(51,255)
Cash from financing activities	58,937	(3,267)	12,057	8,418	(36,141)	(30,419)	(9,436)
Net increase/ (decrease) in cash	42,835	19,001	5,713	18,339	(13,158)	(11,726)	10,330
Free cash flow to equity	42,835	(131,550)	5,917	18,684	(12,835)	(11,336)	10,740
Ratio analysis	FY 2019	FY 2020	FY 2021F	FY 2022F	FY2023F	FY 2024F	FY 2025F
EBITDA margin	9%	18%	19%	25%	27%	29%	29%
Operating margin	-1%	-1%	0%	0%	0%	0%	0%
ROE	n/a	n/a	n/a	0%	1%	4%	5%
ROA	n/a	n/a	n/a	0%	0%	2%	2%
Dividend payout ratio (%)	0%	0%	0%	0%	0%	0%	0%

Source: Company Accounts, WSTC Research

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