

May 18, 2022



Earnings Note

Event

Guinness Nigeria Plc (“the Group”) recently released its Q3 2022 financial performance, reporting an 18% YoY rise in revenue, while Profit after tax grew by 200% to N6.46bn (Q3 2021: N2.16bn).

According to the Company, the revenue growth drivers were improved product mix, price increases across all brands, and strong product demand. Spirits remained the Group’s major revenue growth engine. In line with the Group’s strategic shift to higher-margins products, the Spirit segment witnessed significant growth across both the Mainstream and International Premium sub-segments.

Cost margin improved significantly by a near 1,000bps to 59% (Q3 2021:68%). We attribute the cost margin decline to effective (higher) pricing – in line with the industry trend. The Group also benefitted from economies of scale due to increased production capacity. Consequently, gross profit grew by 49% to N20.67bn from N13.84bn in Q3 2021.

To deepen route-to-market and drive increased volume sales and other strategic growth priorities, marketing and distribution expense grew by 19% YoY to N9.24bn. Administrative expense, however declined by 13% YoY to N2.11bn. On the back of higher marketing spend, operating expense increased by 12% YoY to N9.29bn.

The combined impact of higher revenue growth, cost optimisation, and operating leverage translated to a significant profit growth, operating profit rose by 137% YoY. Profit after tax grew by 200% YoY to N6.46bn.

Q3 2022 Financial Performance

	Q3 2022	Q3 2021	%
Revenue	50,320	42,606	18%
Cost of sales	(29,646)	(28,763)	3%
Gross profit	20,674	13,843	49%
Other income	(32)	255	-113%
Operating income	20,643	14,098	46%
Marketing and distribution expenses	(9,240)	(7,752)	19%
Administrative expenses	(2,110)	(2,421)	-13%
Operating expenses	(11,349)	(10,173)	12%
Operating profit	9,293	3,925	137%
Finance income	440	(54)	915%
Finance cost	(237)	(700)	-66%
Net finance cost	203	(755)	127%
Profit before tax	9,496	3,170	200%
Income tax	(3,039)	(1,014)	200%
Profit after tax	6,457	2,155	200%

Source: Company Accounts, WSTC Research

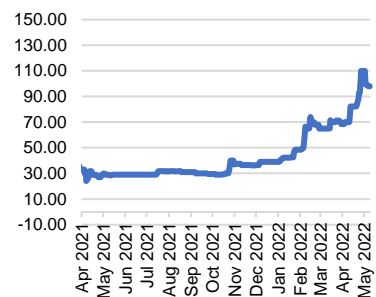
HOLD

Fair Value Estimate:
N86.58

Stock Data

Current price (N)	98.00
Shares Outstanding (mn)	2,190
Market Cap (N'mn)	214,658
52-week high (N)	110.00
52-week low (N)	28.50
Trailing EPS (N)	0.57
Forward EPS (N)	8.59
Forward PE (X)	11.41
Justified PE Multiple (X)	10.08

Price Movement



Stock Data	FY 2020	FY 2021	FY 2022F
P/E	N/A	171.00x	11.41x
P/BV	2.94x	2.89x	2.33x
PBT Margin	-16%	4%	13%
PAT Margin	-12%	1%	9%
RoE	N/A	2%	24%
Dividend Yield	0%	0%	3%

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9M 2022 Financial Performance

	9M 2022	9M 2021	%
Revenue	159,445	114,956	39%
Cost of sales	(102,262)	(82,528)	24%
Gross profit	57,182	32,429	76%
Other income	1,343	952	41%
Operating income	58,525	33,380	75%
Marketing and distribution expenses	(28,071)	(18,451)	52%
Administrative expenses	(7,569)	(7,289)	4%
Operating expenses	(35,640)	(25,740)	38%
Operating profit	22,885	7,640	200%
Finance income	1,073	281	282%
Finance cost	(1,490)	(3,458)	-57%
Net finance cost	(417)	(3,177)	-87%
Profit before tax	22,468	4,463	403%
Income tax	(7,190)	(2,625)	174%
Profit after tax	15,278	1,838	731%

Source: Company Accounts, WSTC Research

Outlook

Between our last earnings report and now, the Group's market value grew by 102% to current market price of N98.00, reflecting a repricing made on the stock based on market's expectations of earnings growth. Based on our expectations for revenue and profit growth, we estimate N86.58 as the stock's fair value.

We note the Group's recent improvements recorded across key financial metrics (topline growth, margin expansion, deleveraging, and robust liquidity). However, we are cautious of the sustainability of the revenue growth. This is because the revenue growth recorded by the Group was price-driven, amid rising input cost pressures due to global supply chain challenges and the recent geopolitical conflict in the Eastern Europe. We view the price increase as a general industry move after several months on haemorrhaging margins in the past.

In the medium to long term, we expect revenue growth to normalise. In terms of industry fundamentals, the demographic characteristics are favourable to increase volume sales. However, we also note that underlying factors including low aggregate income and weakening purchasing power are constraints to effective demand.

We incorporated these expectations in our model to arrive at our fair value. Hence, we recommend a HOLD for the stock. Based on our estimated fair value, the stock offers a 9% downside potential (inclusive of dividend yield). We posit entry into the stock at the current market price might be sub-optimal. Our view is further strengthened by the earnings yield of the stock. An earnings yield of 9% when we do not expect to see material revenue and earnings growth in the medium to long term is relatively low, in our view.

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Revenue	160,416	212,783	232,380	249,177	261,528	273,163	285,336
EBITDA	18,989	42,384	48,861	50,077	47,737	49,128	50,377
EBIT	10,405	30,978	36,411	36,730	33,735	34,541	35,073
Profit before taxation (PBT)	5,770	26,875	33,784	36,390	33,436	34,314	35,029
Net profit (PAT)	1,255	18,813	22,973	24,745	22,736	23,334	23,819
EPS (₦)	0.57	8.59	10.49	11.30	10.38	10.65	10.87
DPS (₦)	0.46	2.50	2.70	3.20	3.50	4.00	4.00
Balance sheet (NGN mn)							
Current assets	74,736	112,259	84,012	94,839	101,193	113,910	125,126
Non-current assets	94,671	95,179	95,740	96,059	96,606	94,441	92,070
Total assets	169,407	207,439	179,752	190,898	197,800	208,351	217,196
Current liabilities	82,959	102,582	57,622	49,737	40,958	35,766	29,540
Non-current liabilities	12,161	12,765	12,541	12,741	12,695	12,771	12,784
Shareholders' equity	74,287	92,092	109,589	128,420	144,147	159,814	174,872
Book value per share (₦)	33.91	42.04	50.03	58.63	65.81	72.96	79.84
Cash flow statement (NGN mn)							
Cash from operating activities	52,381	12,530	21,108	27,384	23,156	29,894	28,942
Cash from investing activities	(11,377)	(10,818)	(11,750)	(12,483)	(13,194)	(10,863)	(11,162)
Cash from financing activities	(10,269)	25,056	(44,440)	(6,455)	(7,962)	(8,779)	(9,878)
Net increase/ (decrease) in cash	30,735	26,768	(35,082)	8,447	2,000	10,252	7,902
Free cash flow to equity	30,645	27,423	(30,078)	13,750	8,453	17,155	15,680
Ratio analysis							
EBITDA margin	12%	20%	21%	20%	18%	18%	18%
Operating margin	6%	15%	16%	15%	13%	13%	12%
ROE	2%	23%	23%	21%	17%	15%	14%
ROA	1%	10%	12%	13%	12%	11%	11%
Dividend payout ratio (%)	80%	29%	26%	28%	34%	38%	37%

Source: Company Accounts, WSTC Research

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 15\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 15% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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