

NIGERIAN BREWERIES PLC



... Off to a Strong Start

May 5, 2022



Earnings Note

In line with our expectations, Nigerian Breweries Plc ('the Group') reported a stellar performance in Q1 2022. Revenue grew by 30% YoY to N137.77bn. Operating profit grew by 64% YoY to N23.72bn while profit after tax spiked by 78% YoY to N13.61bn.

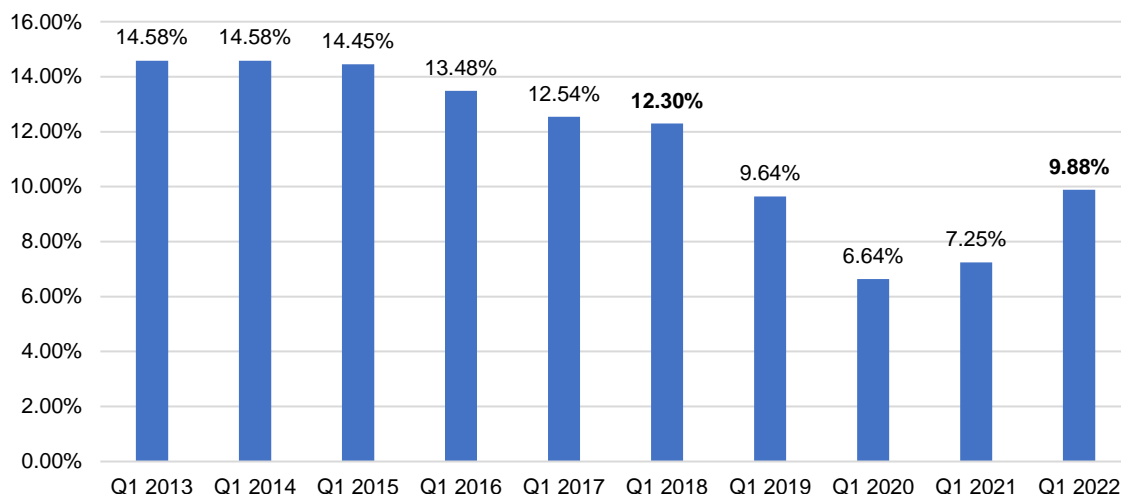
Effective Pricing Helps to Lift Net Margins to Highest Level Since Q1 2018

On the heels of rising input costs, amid higher prices in the global commodity market, the Group took price increases in Q1 2022. In addition, the Group doubled down on its strategy of selling more of premium brands. These efforts led to higher revenue and higher gross margins in Q1 2022. Gross margin expanded by 800 basis points to 45% in Q1 2022 (Q1 2021: 38%).

The profitability extended to the bottomline, on the back of operating efficiency. Although the operating expense margin also increased in Q1 2022, the magnitude of the increase was lower than the gross margin increase. For instance, while gross margin expanded by 800 basis points, the operating expense margin increased by 500 basis points.

Net finance cost declined by 1% YoY to N3.04bn in Q1 2022. The efficiency supported net profit growth of 78% YoY. We note that, in absolute terms; the profit recorded in Q1 2022 was the highest since Q1 2013. In terms of net margin, the performance in Q1 2022 was the highest since Q1 2018.

First Quarter Net Margin Trend



Source: Company Accounts, WSTC Research

Outlook

We slightly adjusted our EPS estimate for FY 2022 to N3.63 (previous: N3.48). The adjustment was premised on incorporation of the higher-than-anticipated Q1 2022 performance. We left our forecasts for the subsequent quarters relatively unchanged because we expect to see a slowdown in profitability growth, on the back of full reflection of higher global commodity prices on the Group's costs. While we note that the Group effectively raised prices recently, we expect a slow revenue growth. This is due to our expectations that consumers will begin to respond negatively to higher prices.

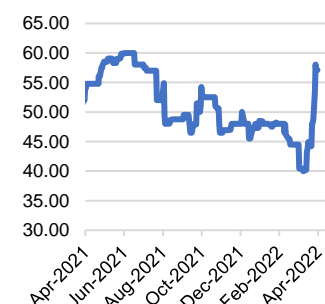
We estimate a N56.85 fair value for the stock, which implies a justified price-to-earnings (P/E) multiple of 15.68x. At the market price of N62.80, the stock trades at a 17.32x forward P/E. Therefore, we do not see any sustainable price upside at the market price. We recommend a HOLD.

HOLD

Fair Value Estimate:
N56.85

Stock Data

Current price (N)	62.80
Shares Outstanding (mn)	8,043
Market Cap (N'mn)	505,100
52-week high (N)	62.80
52-week low (N)	39.90
Trailing EPS (N)	1.58
Forward EPS (N)	3.63
Forward PE (X)	17.32
Justified PE Multiple (X)	15.68



Stock Data	FY 2020	FY 2021	FY 2022F
P/E	68.55x	39.86x	17.32x
P/BV	3.12x	2.94x	2.71x
PBT Margin	3%	5%	8%
PAT Margin	2%	3%	6%
RoE	4%	8%	16%
Dividend Yield	2%	3%	6%

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Financial Performance Extract

Income Statement (N'mn)	Q1 2022	Q1 2021	% Change
Revenue	137,772	105,676	30%
Cost of sales	(75,319)	(66,005)	14%
Gross profit	62,453	39,671	57%
Other income	859	368	134%
Operating income	63,312	40,039	58%
Marketing and distribution expenses	(32,137)	(19,804)	62%
Administrative expenses	(7,452)	(5,745)	30%
Operating expense	(39,588)	(25,549)	55%
Operating profit	23,724	14,490	64%
Non-operating profit/(loss)	(2,961)	(2,976)	-1%
Finance income	74	25	189%
Finance cost	(1,158)	(2,390)	-52%
FX loss	(1,877)	(612)	207%
Profit before tax	20,763	11,514	80%
Income tax	(7,149)	(3,855)	
Profit after tax	13,614	7,660	78%
Balance Sheet Information (N'mn)	Q1 2022	FY 2021	% Change
Assets			
Non-current assets			
Plant, property & equipment	273,108	257,217	6%
Right of use asset	9,533	12,520	-24%
Intangible assets and goodwill	93,960	94,334	0%
Investments	150	150	0%
Other receivables	1,026	1,134	-10%
Total non-current assets	377,777	365,356	3%
Current assets			
Inventories	68,461	62,192	10%
Trade and other receivables	36,516	26,501	38%
Prepayments	4,015	2,853	41%
Deposits for imports	11,555	11,891	-3%
Cash and cash equivalents	23,046	16,730	38%
Total current assets	143,593	120,166	19%
Total Assets	521,370	485,522	7%
Liabilities			
Non-current liabilities			
Loans and borrowings	3,541	6,831	-48%
Employee benefits	10,928	10,964	0%
Deferred tax liabilities	22,808	23,282	-2%
Total non-current liabilities	37,277	41,077	-9%
Current liabilities			
Loans and borrowings	43,302	24,542	76%
Current tax liabilities	18,246	10,624	72%
Dividend payable	9,743	10,438	-7%
Trade and other payables	226,315	226,418	0%
Provisions	511	511	0%
Total current liabilities	298,117	272,533	9%
Total Liabilities	335,394	313,610	7%
Equity			
Share capital	4,038	4,038	0%
Share premium	77,500	77,500	0%
Share based payment reserve	245	171	44%
Retained earnings	104,083	90,095	16%
NCI	111	109	2%
Net Assets	185,977	171,913	8%
Cash Flow Statement (N'mn)	Q1 2022	Q1 2021	% Change
Cash flow generated from operating activities	31,316	23,924	31%
Working capital changes	(42,538)	(1,706)	2393%
Taxes	7,946	(7,388)	-208%
Others	(633)	(67)	840%
Net cash flow generated from operating activities	(3,909)	14,763	-126%
Net cash used in investing activities	(7,502)	(6,597)	14%
Net cash used in financing activities	17,727	(20,101)	188%
Net increase/(decrease) in cash	6,316	(11,935)	153%
Free cash flow to firm	(11,338)	14,102	-180%
Net debt	18,046	(20,098)	190%
Free cash flow to equity	6,708	(5,997)	212%

Source: Company Accounts, WSTC Research

Financial Projection

Income statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	437,285	518,629	562,713	607,730	653,309	699,041
EBITDA	82,794	102,826	111,566	120,491	129,528	138,595
EBIT	41,494	53,977	58,566	63,251	67,995	72,754
Profit before taxation (PBT)	23,701	42,879	41,800	50,667	52,862	54,666
Net profit (PAT)	12,672	29,157	28,424	34,454	35,946	37,173
EPS (₹)	1.58	3.63	3.53	4.28	4.47	4.62
DPS (₹)	1.60	3.63	3.53	4.28	4.47	4.62
Balance Sheet (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	120,166	140,472	140,391	146,346	158,926	168,008
Non-current assets	365,356	367,195	369,123	371,274	373,593	376,144
Total assets	485,522	507,667	509,514	517,620	532,519	544,152
Current liabilities	272,533	248,762	253,512	249,797	269,690	276,229
Non-current liabilities	41,077	72,313	70,143	75,934	77,491	81,358
Long-term debt	6,831	38,067	35,897	41,688	43,245	47,112
Shareholders' equity	171,912	186,592	185,859	191,889	185,338	186,565
Book value per share (₹)	21.37	23.20	23.11	23.86	23.04	23.20
Cash Flow Statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	91,569	40,174	74,346	85,906	89,837	97,714
Cash from investing activities	(61,013)	(50,408)	(54,462)	(58,882)	(63,364)	(67,887)
Cash from financing activities	(44,195)	32,701	(32,897)	(30,325)	(24,958)	(29,375)
Net increase/ (decrease) in cash	(13,640)	22,467	(13,013)	(3,300)	1,514	452
Free cash flow to equity	(11,759)	36,665	15,678	24,613	43,523	35,893
Ratio Analysis (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	19%	20%	20%	20%	20%	20%
Operating margin	9%	10%	10%	10%	10%	10%
ROE	8%	16%	15%	18%	19%	20%
ROA	3%	6%	6%	7%	7%	7%
Dividend payout ratio	102%	100%	100%	100%	100%	100%

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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