

# GUINNESS NIGERIA PLC



...Improved Gross Profit Inadequate to Grow Bottomline

November 28, 2022.



Earnings Note

## Event

Guinness Nigeria Plc ('the Company') recorded an 11% year-on-year revenue growth to N52.85bn in Q1 2023 (Q1 2022: N47.47bn). The management attributed this growth to improved outlet coverage as well as rollover benefits of price increases taken across all categories in 2021. We also believe that a product mix strategy (that is, the increased sale of premium brands) contributed to the revenue growth.

Gross margin expanded by 300 basis points to 35% in Q1 2023 (Q1 2022: 32%), on the back of operating efficiency. We also attribute the gross margin improvement to improved product mix and higher pricing benefits. In absolute terms, gross profit grew by 20% year-on-year to N18.24bn in Q1 2023.

However, operating profit declined by 9% year-on-year to N5.91bn. This was due to higher operating expenses incurred during the period. Total operating expenses rose by 45% YoY to N12.99bn. Marketing and distribution expenses accounted for 70% of the overall increase. The Company spent more to invest in its brand amid industry competition. Higher energy prices also impacted distribution-related expenses during the period.

Finance cost worsened by 131% on the back of currency depreciation. According to the management, the Company's effective exchange rate increased to N439/\$ in Q1 2023 (Q1 2022: N418/\$). Therefore, FX losses were incurred during the period

Profit after tax stood at N2.75bn, from N4.04bn in Q1 2022, representing a 32% YoY decline owing to higher costs incurred in the reporting period.

## Financial Performance Trend

N'mn	Q1 2023	Q1 2022	Q1 2021	Q1 2020	Q1 2019
<b>Revenue</b>	<b>52,850</b>	<b>47,469</b>	<b>30,024</b>	<b>26,899</b>	<b>28,094</b>
Cost of sales	(34,610)	(32,233)	(23,013)	(18,954)	(18,985)
<b>Gross profit</b>	<b>18,239</b>	<b>15,237</b>	<b>7,011</b>	<b>7,945</b>	<b>9,109</b>
Other income	660	248	207	119	191
<b>Operating income</b>	<b>18,900</b>	<b>15,484</b>	<b>7,218</b>	<b>8,064</b>	<b>9,300</b>
Marketing and distribution expenses	(9,414)	(6,580)	(4,625)	(5,202)	(5,451)
Administrative expenses	(3,581)	(2,398)	(2,007)	(2,180)	(2,188)
<b>Operating expenses</b>	<b>(12,995)</b>	<b>(8,978)</b>	<b>(6,632)</b>	<b>(7,383)</b>	<b>(7,639)</b>
<b>Operating profit</b>	<b>5,905</b>	<b>6,506</b>	<b>586</b>	<b>682</b>	<b>1,660</b>
Finance income	598	506	462	235	162
Finance cost	(2,460)	(1,066)	(1,366)	(1,287)	(593)
<b>Profit before tax</b>	<b>4,042</b>	<b>5,947</b>	<b>(317)</b>	<b>(370)</b>	<b>1,229</b>
Income tax	(1,294)	(1,903)	(524)	0	(393)
<b>Profit after tax</b>	<b>2,749</b>	<b>4,044</b>	<b>(842)</b>	<b>(370)</b>	<b>836</b>
<b>Earnings per share</b>	<b>N1.26</b>	<b>N1.85</b>	<b>-N0.38</b>	<b>-N0.17</b>	<b>N0.38</b>

Source: Company Accounts, WSTC Research

# BUY

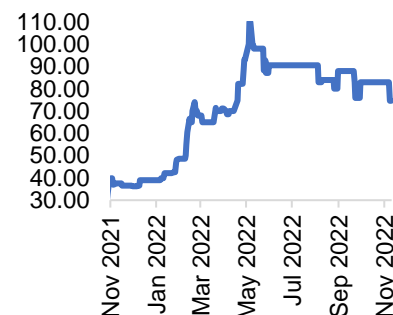
**Fair Value Estimate:**  
**N80.55**

Total Return: **+35%**

## Stock Data

Current price (N)	63.00
Shares Outstanding (mn)	2,190
Market Cap (N'mn)	137,994
52-week high (N)	110.00
52-week low (N)	36.30
Trailing EPS (N)	7.15
Forward EPS (N)	5.25
Forward PE (X)	12.00
Justified PE Multiple (X)	15.34

## Price Movement



Stock Data	FY 2021	FY 2022	FY 2023F
P/E	109.93x	8.82x	12.00x
P/BV	1.86x	1.53x	1.61x
PBT Margin	4%	11%	8%
PAT Margin	1%	8%	5%
RoE	2%	19%	13%
Dividend Yield	1%	11%	8%

## Analysts

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## Q1 2023 Financial Performance

Income Statement (N'mn)	3M 2023	3M 2022	Growth (%)
<b>Revenue</b>	<b>52,850</b>	<b>47,469</b>	<b>11%</b>
Cost of sales	(34,610)	(32,233)	7%
<b>Gross profit</b>	<b>18,239</b>	<b>15,237</b>	<b>20%</b>
Other income	660	248	167%
<b>Operating income</b>	<b>18,900</b>	<b>15,484</b>	<b>22%</b>
Marketing expense	(9,414)	(6,580)	43%
Admin expense	(3,581)	(2,398)	49%
<b>Operating expense</b>	<b>(12,995)</b>	<b>(8,978)</b>	<b>45%</b>
<b>Operating profit</b>	<b>5,905</b>	<b>6,506</b>	<b>-9%</b>
<b>Non-operating profit/(loss)</b>	<b>(1,862)</b>	<b>(560)</b>	<b>233%</b>
Net impairment gain/(loss)	0	0	N/A
Impairment loss on PPE	0	0	N/A
Finance income	598	506	18%
Finance cost	(2,460)	(1,066)	131%
<b>Profit before tax</b>	<b>4,042</b>	<b>5,947</b>	<b>-32%</b>
Income tax	(1,294)	(1,903)	-32%
<b>profit after tax</b>	<b>2,749</b>	<b>4,044</b>	<b>-32%</b>
Balance Sheet (N'mn)	3M 2023	3M 2022	Growth (%)
<b>Assets</b>			
PP & E	97,682	95,056	3%
Inventory	36,919	28,132	31%
Receivables	18,581	9,464	96%
Prepayments	1,311	657	99%
Cash	63,920	46,788	37%
Others	1,985	2,409	-18%
<b>Total Assets</b>	<b>220,399</b>	<b>182,508</b>	<b>21%</b>
<b>Liabilities</b>			
Borrowings	30,220	20,858	45%
Payables	75,066	63,271	19%
Others	22,184	19,125	16%
<b>Total Liabilities</b>	<b>127,470</b>	<b>103,254</b>	<b>23%</b>
<b>Net Assets</b>	<b>92,928</b>	<b>79,253</b>	<b>17%</b>

Source: Company Accounts, WSTC Research

### Outlook

We posit that the Company will take a pricing strategy to mitigate rising operating costs and maintain improved gross margin. To this effect, we expect revenue to grow in the remaining three quarters. However, we expect the growth to be mid single digit, as volumes decline due to shrinking demand in an inflationary environment.

Based on our expectation of persistently challenging operating environment, we revise our earnings per share (EPS) forecast for FY 2023 to N5.25 (previous: N8.18). Accordingly, we also revise our fair value for the stock to N80.55 (previous: N119.20). We recommend a BUY, as we think the stock is undervalued as it currently trades at N63.00, implying a 28% discount to our revised fair value.

## Financial Projections

Income statement (NGN mn)	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Revenue	206,822	222,523	266,413	301,929	339,701	383,762	427,056
EBITDA	32,955	27,393	36,528	45,529	49,846	54,247	59,046
EBIT	24,347	17,841	25,014	32,332	34,897	37,284	39,270
Profit before taxation (PBT)	23,674	16,917	24,113	31,761	34,259	37,063	39,232
Net profit (PAT)	15,651	11,503	16,397	21,597	23,296	25,203	26,678
EPS (₦)	7.15	5.25	7.49	9.86	10.64	11.51	12.18
DPS (₦)	7.14	4.73	5.61	7.40	7.98	8.63	9.13
Balance sheet (NGN mn)							
Current assets	117,601	103,818	106,786	105,252	103,063	105,535	110,249
Non-current assets	98,059	102,712	105,409	110,757	116,216	122,719	129,663
Total assets	215,660	206,530	212,195	216,009	219,280	228,254	239,912
Current liabilities	113,733	108,804	108,356	102,873	99,008	100,232	104,084
Non-current liabilities	11,948	11,882	11,952	11,949	11,986	12,006	12,037
Shareholders' equity	89,979	85,843	91,888	101,187	108,285	116,016	123,791
Book value per share (₦)	41.08	39.19	41.95	46.20	49.44	52.97	56.52
Cash flow statement (NGN mn)							
Cash from operating activities	28,119	12,399	17,831	19,659	27,144	29,314	39,923
Cash from investing activities	(6,844)	(12,031)	(12,869)	(17,001)	(18,498)	(21,128)	(23,896)
Cash from financing activities	12,052	(22,790)	(13,034)	(12,645)	(18,228)	(16,219)	(18,039)
Net increase/ (decrease) in cash	33,326	(22,422)	(8,071)	(9,987)	(9,582)	(8,033)	(2,012)
Free cash flow to equity	33,342	(8,200)	1,241	1,223	5,389	7,696	14,787
Ratio analysis							
EBITDA margin	16%	12%	14%	15%	15%	14%	14%
Operating margin	12%	8%	9%	11%	10%	10%	9%
ROE	19%	13%	18%	22%	22%	22%	22%
ROA	8%	5%	8%	10%	11%	11%	11%
Dividend payout ratio (%)	100%	90%	75%	75%	75%	75%	75%

**Source:** Company Accounts, WSTC Research

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