

NIGERIAN BREWERIES PLC



...Cost Pressures Erode Profitability

November 9, 2022



Earnings Note

Nigerian Breweries Plc ('the Company') reported N3.98bn net loss in Q3 2022 despite a 19% YoY revenue growth to N119.36bn. The Company's performance was in line with the trend among consumer goods companies, where strong topline performance did not reflect in the bottomline.

The reasons for this trend across consumer goods companies are the high cost of sales due to rising raw material prices and high operating expenses due to inflationary pressure. For Nigerian Breweries, we attribute the 19% revenue growth to higher effective pricing and continued sale of premium brands with higher pricing. However, gross margin dipped by 300 basis points to 30% in Q3 2022 from 33% in Q3 2021 - a development we link to the Company's inability to pass on increased production costs on consumers.

By implication, gross profit grew by 10% YoY to N35.79bn. Effectuated by competitive pressures and the need to retain market share, the Group spent N30.59bn on marketing and distribution activities - this represented a 34% YoY increase from Q3 2021 marketing expense. Also, administrative expense rose by 20% YoY to N6.16bn.

The combined impact of the higher operating costs resulted to N452mn operating loss in Q3 2022 from N4.82bn operating profit in Q3 2021.

Losses at the bottom line further widened due to higher finance cost (+9% YoY to N3.10bn) and higher foreign exchange losses (+163% YoY to N3.08bn). On aggregate, loss before tax stood at N6.60bn while loss after tax stood at N3.98bn.

Notwithstanding the weak performance on Q3 2022, the Company declared a 40kobo dividend. The dividend qualification date is November 23, 2022 while the payment date is December 1, 2022.

BUY

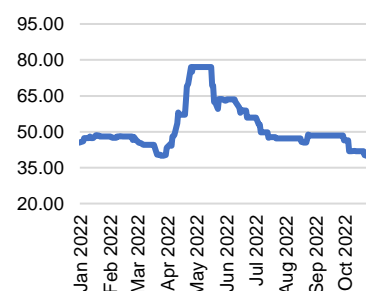
Fair Value Estimate:
N64.86

Total return: **+68%**

Stock Data

Current price (N)	39.75
Shares Outstanding (mn)	8,221
Market Cap (N'mn)	326,781
52-week high (N)	78.50
52-week low (N)	39.75
Trailing EPS (N)	1.58
Forward EPS (N)	1.97
Forward PE (X)	20.13
Justified PE Multiple (X)	32.85

Price Movement



Stock Data	FY 2020	FY 2021	FY 2022F
P/E	44.35x	25.79x	20.13x
P/BV	1.97x	1.86x	1.87x
PBT Margin	3%	5%	5%
PAT Margin	2%	3%	3%
RoE	4%	8%	9%
Dividend Yield	2%	4%	5%

Nigerian Breweries (N'mn)	Q3 2022	Q3 2021	Q2 2022	Q2 2021	Q1 2022	Q1 2021
Revenue	119,364	100,024	136,313	103,581	137,772	105,676
Revenue growth	19%		32%		30%	
Gross profit	35,794	32,620	56,283	37,026	62,453	39,671
Gross margin	30%	33%	41%	36%	45%	38%
Operating profit	-452	4,819	12,116	5,427	23,724	14,490
Operating margin	0%	5%	9%	5%	17%	14%
Net profit	-3,987	498	5,129	65	13,614	7,660
Net margin	-3%	0%	4%	0%	10%	7%
Earnings per share	(N0.48)	N0.06	N0.62	N0.01	N1.66	N0.95

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Source: Company Accounts, WSTC Research

9M 2022 Financial Performance

Income Statement (N'mn)	9M 2022	9M 2021	Growth (%)
Revenue	393,449	309,281	27%
Cost of sales	(238,919)	(198,745)	20%
Gross profit	154,530	110,537	40%
Other income	2,506	894	180%
Operating income	157,036	111,431	41%
<i>Marketing and distribution expenses</i>	<i>(101,010)</i>	<i>(69,112)</i>	<i>46%</i>
<i>Administrative expenses</i>	<i>(20,639)</i>	<i>(17,582)</i>	<i>17%</i>
Operating expense	(121,649)	(86,694)	40%
Operating profit	35,387	24,737	43%
Non-operating profit/(loss)	(16,295)	(11,999)	36%
Finance income	259	95	173%
Finance cost	(6,190)	(7,687)	-19%
Net loss on foreign exchange transactions	(10,363)	(4,407)	135%
Profit before tax	19,093	12,738	50%
Income tax	(4,337)	(4,521)	-4%
Profit after tax	14,755	8,217	80%
Balance Sheet Information	9M 2022	9M 2021	Growth (%)
Assets			
PP & E	292,203	214,519	36%
Inventory	94,346	57,569	64%
Receivables	40,468	23,297	74%
Cash	14,693	11,781	25%
Others	114,505	151,516	-24%
Total Assets	556,216	458,682	21%
Liabilities			
Borrowings	113,695	78,565	45%
Payables	206,127	160,687	28%
Others	51,971	51,959	0%
Total Liabilities	371,792	291,211	28%
Net Assets	184,424	167,470	10%

Source: Company Accounts, WSTC Research

Outlook

We expect the weak macroeconomic environment to constrain earnings in Q4 2022, albeit we think that there will be marginal improvement. Shrinking household consumption due to eroding purchasing power, inflationary pressures, and global supply chain disruptions remain key issues affecting the majority of the players in the consumer goods industry.

We revise our earnings per share (EPS) forecast for FY 2022 to N1.97 from our previous estimate of N2.45. The downward revision is due to higher-than-expected rise in input cost as we believe the cost pressure would remain in the near term.

However, we recommend a BUY for the stock. While noting the current challenges that negatively impact the Company's financial performance, we believe that the stock is oversold and that the current market price provide an attractive entry point.

Financial Projection

Income statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	437,285	530,221	575,290	759,383	901,008	991,108
EBITDA	82,794	91,095	98,838	144,756	173,555	190,910
EBIT	41,494	43,806	47,529	77,028	93,196	102,516
Profit before taxation (PBT)	23,701	23,875	19,812	48,912	67,079	74,673
Net profit (PAT)	12,672	16,235	13,472	33,260	45,614	50,777
EPS (₹)	1.58	1.97	1.64	4.05	5.55	6.18
DPS (₹)	1.60	1.97	1.64	4.05	5.55	6.18
Balance Sheet (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	120,166	155,902	150,520	198,543	205,029	212,043
Non-current assets	365,356	402,293	418,040	429,296	438,768	443,697
Total assets	485,522	558,194	568,560	627,839	643,797	655,740
Current liabilities	272,533	317,141	329,210	357,655	360,983	362,356
Non-current liabilities	41,077	66,059	68,763	79,809	88,307	93,713
Long-term debt	6,831	31,813	34,517	45,563	54,060	59,467
Shareholders' equity	171,912	174,994	170,587	190,375	194,507	199,671
Book value per share (₹)	21.37	21.29	20.75	23.16	23.66	24.29
Cash Flow Statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	91,569	34,483	84,477	106,907	141,270	155,724
Cash from investing activities	-61,013	-83,943	-66,579	-78,397	-89,191	-92,616
Cash from financing activities	-44,195	51,908	-24,652	-13,180	-55,101	-66,054
Net increase/ (decrease) in cash	-13,640	2,449	-6,754	15,330	-3,022	-2,946
Free cash flow to equity	-11,759	15,319	10,649	28,216	37,819	41,961
Ratio analysis	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	19%	17%	17%	19%	19%	19%
Operating margin	9%	8%	8%	10%	10%	10%
ROE	8%	9%	8%	18%	24%	26%
ROA	3%	3%	2%	5%	7%	8%
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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