

August 25, 2023



Earnings Note

Event

Like its peers in the breweries industry, International breweries ('the Company') reported a bolstered revenue performance in Q2 2023 subsequent to the suspension of the Naira redesign policy which tanked sales in Q1 2023. However, the extent of its resurgence was limited to the top-line, as the Company grappled with an elevated input cost and heightened FX loss during the reporting period. This confluence of factor culminated in yet another net loss, amounting to N21.29 billion. The 15% revenue growth to N61.73 billion in Q2 2023 from N53.88 billion in Q2 2022 is believed to have been driven by higher pricing, as shrinking purchasing power continue to subdue demand.

The Company was faced with the hurdle of elevated input cost, primarily due to high cost of raw materials, which weighed heavily on the revenue. The stiff competition in the industry and the Company's current position in the industry continued to put a strain on its ability to enact an assertive pricing strategy that could effectively offset the rising cost of sales which increased by 24% to N47.36 billion in Q2 2023 from N38.22 billion in Q2 2022. Consequently, the gross margin contracted by 600 basis points to 23% from 29% in Q2 2022.

Cost optimisation efforts enhanced operating profit margin by 300 basis points, as operating expenses declined by 19% to N12.72 billion from N15.63 billion in Q2 2022. The decline driver was an 11% decrease in marketing and distribution expenses, and a 27% decrease in administrative expenses.

The Company suffered steep FX losses due to the devaluation of Naira. The revaluation of its foreign liabilities subsequent to the devaluation resulted in a considerable surge of its FX loss to N33.92 billion in Q2 2023 from N1.60 billion in Q2 2022. In addition, increased borrowings also resulted in a 253% increase in finance cost.

These factors, especially the substantial FX loss exacerbated the Company's net loss to N21.29 billion from the N385million net loss reported in Q2 2022.

SELL

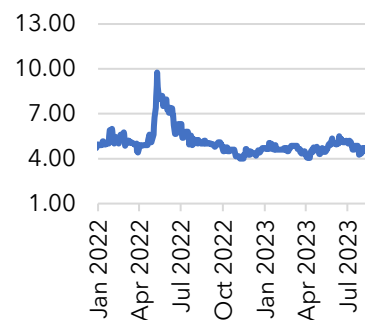
Fair Value Estimate:
N3.53

Total Return: **-21%**

Stock Data

Current price (N)	4.45
Shares Outstanding (mn)	26,862
Market Cap (N'mn)	119,536
52-week high (N)	5.90
52-week low (N)	4.00
Trailing EPS (N)	(0.81)
Forward EPS (N)	(1.06)
Forward PE (X)	n/a
Justified PE Multiple (X)	n/a

Price Movement



Stock Data

	FY 2021	FY 2022	FY 2023F
P/E	n/a	n/a	n/a
P/BV	1.06x	1.14x	1.48x
PBT Margin	-11%	-12%	-21%
PAT Margin	-10%	-10%	-12%
RoE	n/a	n/a	n/a
Dividend Yield	n/a	n/a	n/a

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Q2 2023 Financial Performance

Income Statement (N'mn)	Q2 2023	Q2 2022	Growth (%)
Revenue	61,732	53,882	15%
Cost of sales	(47,361)	(38,220)	24%
Gross profit	14,371	15,662	-8%
Other gain/(losses)	606	119	408%
Operating income	14,977	15,781	-5%
Administrative expenses	(5,436)	(7,425)	-27%
Marketing and promotion expenses	(7,283)	(8,201)	-11%
Operating expenses	(12,719)	(15,625)	-19%
Operating profit	2,258	155	1352%
Non-operating profit/(loss)	(39,573)	(188)	21000%
Net impairment on financial assets	(56)	(42)	32%
Finance income	2,995	692	333%
Finance cost	(8,592)	(2,432)	253%
FX loss	(33,920)	1,595	2226%
(Loss)/Profit before tax	(37,315)	(32)	116267%
Income tax	16,028	(353)	-4642%
Profit after tax	(21,287)	(385)	5430%

Source: Company Accounts, WSTC Research

Outlook

Despite the commendable uptick in revenue during the quarter, and our expectation of sustained revenue growth based on price hike albeit moderately, the Company's profitability in the near term appears dim as the persistent burden of input costs continues to exert significant downward pressure on the Company's margin.

Adding to this concern is the Company's elevated financial leverage, which is expected to further erode profitability as the Company is going to deploy more funds to finance the debt. Also, the high debt profile exposes it to considerable financial risk.

While we hold the expectation that the management will further improve on cost management, the current cost landscape underscores the potential difficulties ahead. Hence, our fair value for the stock is N3.53, and we maintain our SELL recommendation for the stock.

H1 2023 Financial Performance

Income Statement (N'mn)	H1 2023	H1 2022	Growth (%)
Revenue	116,131	111,404	4%
Cost of sales	(92,114)	(78,796)	17%
Gross profit	24,017	32,608	-26%
Other gain/(losses)	705	124	470%
Operating income	24,723	32,732	-24%
Administrative expenses	(10,781)	(11,923)	-10%
Marketing expenses	(11,892)	(12,800)	-7%
Operating expenses	(22,673)	(24,723)	-8%
Operating profit	2,050	8,008	-74%
Non-operating profit/(loss)	(43,483)	(6,184)	603%
Net impairment on financial assets	(156)	(76)	104%
Finance income	6,429	2,199	192%
Finance cost	(13,169)	(5,782)	128%
FX loss	(36,587)	(2,524)	1350%
(Loss)/Profit before tax	(41,433)	1,824	-2371%
Income tax	17,840	(1,488)	-1299%
Profit after tax	(23,593)	336	-7118%
Balance Sheet (N'mn)	H1 2023	H1 2022	Growth (%)
Assets			
PP & E	255,879	248,726	3%
Inventories	43,906	25,978	69%
Receivables	21,136	14,764	43%
Investment securities	88,000	32,750	169%
Cash	16,417	22,164	-26%
Others	170,017	45,756	272%
Total Assets	595,355	390,138	53%
Liabilities			
Borrowings	374,286	124,978	199%
Payables	146,770	122,879	19%
Others	4,861	4,263	14%
Total Liabilities	525,917	252,119	109%
Net Assets	69,438	138,019	-50%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022	FY2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Revenue	182,298	218,650	235,029	274,984	327,231	376,315	425,236
EBITDA	31,120	36,034	51,708	61,480	79,008	97,289	95,379
EBIT	(7,839)	(6,913)	4,623	7,196	13,938	22,714	16,110
Profit before taxation (PBT)	(19,836)	(26,844)	(48,310)	(10,963)	(2,583)	6,037	297
Net profit (PAT)	(17,657)	(21,626)	(28,361)	(6,436)	(1,517)	3,544	175
EPS (₹)	(0.66)	(0.81)	(1.06)	(0.24)	(0.06)	0.13	0.01
DPS (₹)	0.00	0.00	0.00	0.00	0.00	0.07	0.00
Balance sheet (NGN mn)	FY 2021	FY 2022	FY2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Current assets	188,094	171,643	185,662	193,437	186,783	198,782	212,703
Non-current assets	281,859	312,609	310,921	312,363	310,744	297,614	287,910
Total assets	469,953	484,252	496,583	505,800	497,527	496,396	500,613
Current liabilities	325,679	210,841	188,782	222,674	243,746	251,178	277,197
Non-current liabilities	8,970	156,080	218,831	200,593	172,765	160,657	138,680
Shareholders' equity	135,304	117,330	88,970	82,533	81,017	84,561	84,735
Book value per share (₹)	5.04	4.37	3.31	3.07	3.02	3.15	3.15
Cash flow statement (NGN mn)	FY 2021	FY 2022	FY2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Cash from operating activities	52,042	42,667	(3,040)	91,359	78,970	76,948	102,914
Cash from investing activities	(86,496)	(66,524)	(34,913)	(49,960)	(57,454)	(55,310)	(62,360)
Cash from financing activities	50,449	(6,920)	38,400	(27,096)	(39,082)	(21,662)	(36,667)
Net increase/ (decrease) in cash	15,994	(30,777)	447	14,303	(17,565)	(24)	3,887
Free cash flow to equity	74,539	(22,844)	(9,413)	9,266	(22,695)	(5,160)	(2,189)
Ratio analysis	FY 2021	FY 2022	FY2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
EBITDA margin	17%	16%	22%	22%	24%	26%	22%
Operating margin	-4%	-3%	2%	3%	4%	6%	4%
ROE	n/a	n/a	n/a	n/a	n/a	4%	0%
ROA	n/a	n/a	n/a	n/a	n/a	1%	0%
Dividend payout ratio (%)	0%	0%	0%	0%	0%	50%	50%

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 $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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