

# NIGERIAN BREWERIES PLC



...Volume Decline Underpinned by Weak Purchasing Power Exacerbates Net Loss

December 08, 2023



Earnings Note

## Event

Nigerian Breweries ('the Group') reported a moderate topline growth in Q3 2023. Revenue grew by 4% to N124.38 billion from N119.36 billion in Q3 2022. The growth was chiefly underpinned by price increments, as volume declined during the period. In our view, the decline in volume was due to the heightened strain on consumer disposable income. Additionally, the management highlighted that socio-political challenges across different regions of the country further contributed to the decline in the Group's volume sales.

This volume decline precipitated a modest uptick of merely 1% in the Group's cost of goods sold, elevating it to N84.15 billion from N83.57 billion in Q3 2022, despite the unabating inflationary pressures. Gross profit advanced by 12% to N40.26 billion from N35.79 billion in Q3 2022 as price increases masked the decline in volume sales. Consequently, gross margin expanded by 200 basis points to 32% from 30% in Q3 2022.

Operating expenses increased to N41.95 billion from N36.75 billion in Q3 2022, due to a 6% rise in marketing and distribution expenses, and a substantial 57% increase in administrative expenses. This resulted in a 100 basis points contraction in operating profit margin.

The heightened interest rate environment resulted in a robust 258% year-on-year surge in finance income and a substantial 150% escalation in finance cost. Despite the prevalent foreign exchange volatility during the quarter, we believe the Group hedged its FX position, thereby, marking a noteworthy 49% reduction in FX losses. However, the overarching result was a 50% uptick in the Group's net finance cost, reaching N9.20 billion from N6.15 billion in Q3 2022.

The Group sustained a net loss, with the after-tax loss surging by 141% to N9.60 billion from N3.99 billion loss reported in Q3 2022.

# HOLD

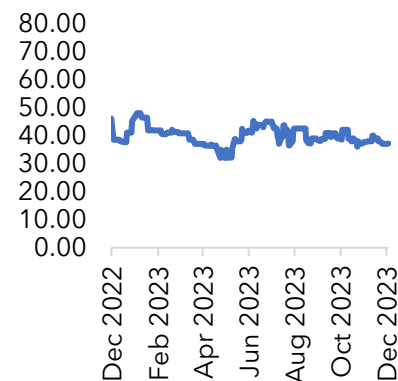
**Fair Value Estimate:**  
**N41.61**

Total Return: +12%

## Stock Data

Current price (N)	37.10
Shares Outstanding (mn)	10,276
Market Cap (N'mn)	381,240
52-week high (N)	48.85
52-week low (N)	32.00
Trailing EPS (N)	1.28
Forward EPS (N)	-4.87
Forward PE (X)	N/A
Justified PE Multiple (X)	N/A

## Price Movement



## Stock Data

Stock Data	FY 2021	FY 2022	FY 2023F
P/E	33.46x	29.88x	N/A
P/BV	2.47x	2.19x	3.20x
PBT Margin	5%	3%	-12%
PAT Margin	3%	2%	-9%
RoE	7%	7%	-42%
Dividend Yield	3%	3%	0%

## Analysts

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**Q3 2023 Financial Performance**

<b>Income Statement (N'mn)</b>	<b>Q3 2023</b>	<b>Q3 2022</b>	<b>Growth (%)</b>
<b>Revenue</b>	<b>124,382</b>	<b>119,364</b>	<b>4%</b>
Cost of sales	(84,147)	(83,570)	1%
<b>Gross profit</b>	<b>40,235</b>	<b>35,794</b>	<b>12%</b>
Other income	600	506	18%
<b>Operating income</b>	<b>40,835</b>	<b>36,300</b>	<b>12%</b>
Marketing and distribution expenses	(33,094)	(31,107)	6%
Administrative expenses	(8,860)	(5,646)	57%
<b>Operating expense</b>	<b>(41,954)</b>	<b>(36,753)</b>	<b>14%</b>
<b>Operating profit/(loss)</b>	<b>(1,119)</b>	<b>(452)</b>	<b>147%</b>
<b>Non-operating profit/(loss)</b>	<b>(9,200)</b>	<b>(6,152)</b>	<b>50%</b>
Finance income	107	30	258%
Finance cost	(7,740)	(3,100)	150%
Net loss on foreign exchange transactions	(1,567)	(3,082)	-49%
<b>Profit/(loss) before tax</b>	<b>(10,319)</b>	<b>(6,604)</b>	<b>56%</b>
Income tax	723	2,617	-72%
<b>Profit/(loss) after tax</b>	<b>(9,596)</b>	<b>(3,987)</b>	<b>141%</b>

**Source:** Company Accounts, WSTC Research

**Outlook**

The Group is notably affected by the contracting purchasing power of consumers due to escalating inflationary pressures. As a result, we revise our stock valuation to reflect the subpar Q3 2023 performance. Our previous valuation factored in a sustained volume improvement in Q3 2023, as with Q2 2023 following the suspension of the Naira redesign policy. This was expected to be complemented with price increases, ensuring discernible revenue growth in Q3 2023.

Our FY 2023 revenue projection now stands at N571.90 billion (previous: N602.53), accompanied by a revised fair value for the stock at N41.61 (previous: N55.53). At the current stock price of N37.10, the stock offers a 12% premium to our revised fair value. Overall, we recommend a **HOLD**.

## 9M 2023 Financial Performance

Income Statement (N'mn)	9M 2023	9M 2022	Growth (%)
<b>Revenue</b>	<b>401,801</b>	<b>393,449</b>	<b>2%</b>
Cost of sales	(249,241)	(238,919)	4%
<b>Gross profit</b>	<b>152,560</b>	<b>154,530</b>	<b>-1%</b>
Other income	1,954	2,506	-22%
<b>Operating income</b>	<b>154,514</b>	<b>157,036</b>	<b>-2%</b>
Marketing and distribution expenses	(101,553)	(100,910)	1%
Administrative expenses	(25,701)	(20,738)	24%
<b>Operating expense</b>	<b>(127,254)</b>	<b>(121,649)</b>	<b>5%</b>
<b>Operating profit</b>	<b>27,259</b>	<b>35,387</b>	<b>-23%</b>
<b>Non-operating profit/(loss)</b>	<b>(105,423)</b>	<b>(16,295)</b>	<b>547%</b>
Finance income	293	259	13%
Finance cost	(18,888)	(6,190)	205%
Net loss on foreign exchange transactions	(86,827)	(10,363)	738%
<b>Profit/(loss) before tax</b>	<b>(78,163)</b>	<b>19,093</b>	<b>-509%</b>
Income tax	20,969	(4,337)	-583%
<b>Profit/(loss) after tax</b>	<b>(57,195)</b>	<b>14,755</b>	<b>-488%</b>
<b>Balance Sheet (N'mn)</b>	<b>9M 2023</b>	<b>9M 2022</b>	<b>Growth (%)</b>
<b>Assets</b>			
PP & E	387,855	292,203	33%
Inventory	102,137	94,346	8%
Receivables	70,960	40,468	75%
Cash	21,135	14,693	44%
Others	127,756	114,505	12%
<b>Total Assets</b>	<b>709,843</b>	<b>556,216</b>	<b>28%</b>
<b>Liabilities</b>			
Borrowings	308,019	113,695	171%
Payables	249,606	264,090	-5%
Others	39,757	105,743	-62%
<b>Total Liabilities</b>	<b>597,382</b>	<b>483,527</b>	<b>24%</b>
<b>Net Assets</b>	<b>112,461</b>	<b>184,424</b>	<b>-39%</b>

Source: Company Accounts, WSTC Research

## Financial Projection

Income statement (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Revenue	437,285	550,638	571,895	648,529	749,894	839,882	929,749	994,832
EBITDA	82,794	91,357	87,477	103,243	124,104	148,571	158,239	172,648
EBIT	41,494	51,756	45,592	55,746	69,183	87,060	90,146	99,789
Profit before taxation (PBT)	23,701	17,341	-67,519	-4,560	19,747	34,561	36,993	43,044
Net profit (PAT)	12,672	13,187	-50,008	-3,101	13,428	23,501	25,155	29,270
EPS (₹)	1.57	1.60	-4.87	-0.30	1.31	2.29	2.45	2.85
DPS (₹)	1.60	1.43	0.00	0.00	1.31	1.83	1.96	2.28
Balance sheet (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Current assets	120,166	155,422	176,707	154,614	154,205	162,420	173,939	174,875
Non-current assets	365,356	464,467	497,802	510,910	519,028	523,969	529,342	535,139
Total assets	485,522	619,889	674,509	665,525	673,233	686,389	703,281	710,014
Current liabilities	272,533	407,705	465,309	467,592	472,117	471,144	476,621	471,127
Non-current liabilities	41,077	32,270	89,879	81,712	74,823	80,223	85,615	89,520
Long-term debt	6,831	2,440	60,049	51,882	44,994	50,393	55,785	59,690
Shareholders' equity	171,912	179,914	119,322	116,221	126,292	135,022	141,045	149,368
Book value per share (₹)	21.29	21.88	11.61	11.31	12.29	13.14	13.73	14.54
Cash Flow statement (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Cash from operating activities	91,615	22,528	15,939	151,828	119,176	123,375	133,002	135,930
Cash from investing activities	(61,013)	(99,259)	(74,843)	(60,184)	(62,595)	(65,930)	(72,862)	(78,003)
Cash from financing activities	(44,195)	82,059	42,451	(90,123)	(57,684)	(62,393)	(63,625)	(59,472)
Net increase/ (decrease) in cash	(13,593)	5,328	(16,452)	1,522	(1,103)	(4,948)	(3,485)	(1,544)
Free cash flow to equity	(11,713)	11,990	(6,245)	1,100	1,810	9,301	15,042	18,749
Ratio analysis	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
EBITDA margin	19%	17%	15%	16%	17%	18%	17%	17%
Operating margin	9%	9%	8%	9%	9%	10%	10%	10%
ROE	8%	7%	-33%	-3%	11%	18%	18%	20%
ROA	3%	2%	-7%	0%	2%	3%	4%	4%
Dividend payout ratio	102%	89%	0%	0%	100%	80%	80%	80%

Source: Company Accounts, WSTC Research

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- 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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