

# INTERNATIONAL BREWERIES PLC



...High Financial Leverage Adversely Impacts Profitability

January 04, 2024



Earnings Note

## Event

International Breweries ('the Company') reported an impressive year-on-year revenue growth of 38% to N67.65 billion in Q3 2023 (Q3 2022: N49.03 billion). Amid the prevailing inflationary pressures curbing consumer spending, it is our inference that the Company implemented pricing adjustments during the quarter. Such a move was essential to offset the impact of escalating input costs and to sustain good margins. Notwithstanding the safeguarding of margins, the Company persisted in a net loss position, primarily attributable to the elevated finance cost.

The pass-through effect of inflationary pressures impacted input cost, culminating in a 20% escalation in the cost of goods to N53.01 billion in Q3 2023 (Q3 2022: N44.36 billion). However, the Company gross margin scaled by 1200 basis points to reach 22% in Q3 2023 (Q3 2022: 10%). This improvement translates to a 213% surge in gross profit, reaching N14.64 billion in Q3 2023 (Q3 2022: N4.67 billion).

Notably, the Company demonstrated a commendable turnaround by registering an operating profit of N4.54 billion, contrasting starkly with the operating loss of N2.72 billion recorded in Q3 2022. This improvement occurred despite a 73% escalation in operating expenses, which rose to N12.04 billion in Q3 2023 (Q3 2022: N6.95 billion), primarily due to augmented cost of advertising and promotion.

However, the Company's net finance cost presented challenges, as it escalated to N4.37 billion in Q3 2023, (Q3 2022: N727.95mn). This rise was consistent with the prevailing high interest rate environment, with finance income and finance cost registering significant growth rates of 312% and 416% respectively. The Company's reported FX losses also grew to N2.24 billion in Q3 2023 (Q3 2022: N893.00 million).

These heightened net finance cost and FX losses exerted pressure on the Company's operating profit, worsening the Company's net loss by 58% to N4.96 billion in Q3 2023 (Q3 2022: N3.15 billion).

# SELL

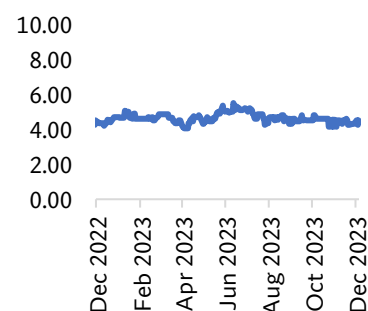
**Fair Value Estimate:  
N3.45**

**Total Return: -28%**

## Stock Data

|                           |         |
|---------------------------|---------|
| Current price (N)         | 4.80    |
| Shares Outstanding (mn)   | 26,862  |
| Market Cap (N'mn)         | 128,938 |
| 52-week high (N)          | 5.70    |
| 52-week low (N)           | 4.70    |
| Trailing EPS (N)          | (0.81)  |
| Forward EPS (N)           | (1.22)  |
| 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            | n/a     | n/a     | n/a      |
| P/BV           | 1.06x   | 1.14x   | 1.55x    |
| PBT Margin     | -11%    | -12%    | -20%     |
| PAT Margin     | -10%    | -10%    | -13%     |
| RoE            | n/a     | n/a     | n/a      |
| Dividend Yield | n/a     | n/a     | n/a      |

## Analysts

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## Q3 2023 Financial Performance

| Income Statement (N'mn)                          | Q3 2023        | Q3 2022        | Growth (%)  |
|--|----------------|----------------|-------------|
| <b>Revenue</b>                                   | <b>67,648</b>  | <b>49,028</b>  | <b>38%</b>  |
| Cost of sales                                    | (53,014)       | (44,359)       | 20%         |
| <b>Gross profit</b>                              | <b>14,635</b>  | <b>4,669</b>   | <b>213%</b> |
| Other income                                     | 1,941          | (432)          | -549%       |
| <b>Operating income</b>                          | <b>16,576</b>  | <b>4,237</b>   | <b>291%</b> |
| Administrative, marketing and promotion expenses | (12,036)       | (6,954)        | 73%         |
| <b>Operating profit</b>                          | <b>4,540</b>   | <b>(2,717)</b> | <b>67%</b>  |
| <b>Non-operating profit/(loss)</b>               | <b>(6,625)</b> | <b>(1,955)</b> | <b>239%</b> |
| Net impairment on financial assets               | (12)           | (334)          | -97%        |
| Finance income                                   | 2,457          | 596            | 312%        |
| Finance cost                                     | (6,828)        | (1,324)        | 416%        |
| Net FX loss                                      | (2,242)        | (893)          | 151%        |
| <b>Profit/(loss) before tax</b>                  | <b>(2,085)</b> | <b>(4,673)</b> | <b>-55%</b> |
| Income tax                                       | (2,875)        | 1,527          | 88%         |
| <b>Profit/(loss) after tax</b>                   | <b>(4,960)</b> | <b>(3,146)</b> | <b>58%</b>  |

**Source:** Company Accounts, WSTC Research

### Outlook

In our last report, we underscored the Company's heightened financial leverage, anticipating a consequent strain on profitability as increased funds will be allocated towards debt servicing. The impact of this was observed in Q3 2023, and we anticipate similar trend in the final quarter of the fiscal year 2023.

Furthermore, the Company is poised to conclude the fiscal year with a net loss, attributable to the substantial finance costs and foreign exchange losses incurred. In light of these factors, we retain our SELL recommendation for the stock, with a fair value of N3.45.

## 9M 2023 Financial Performance

| Income Statement (N'mn)                          | 9M 2023         | 9M 2022        | Growth (%)   |
|--|-----------------|----------------|--------------|
| <b>Revenue</b>                                   | <b>183,779</b>  | <b>160,432</b> | <b>15%</b>   |
| Cost of sales                                    | (145,127)       | (123,155)      | 18%          |
| <b>Gross profit</b>                              | <b>38,652</b>   | <b>37,277</b>  | <b>4%</b>    |
| Other income                                     | 2,647           | (308)          | -959%        |
| <b>Operating income</b>                          | <b>41,298</b>   | <b>36,968</b>  | <b>12%</b>   |
| Administrative, marketing and promotion expenses | (34,709)        | (31,678)       | 10%          |
| <b>Operating profit</b>                          | <b>6,590</b>    | <b>5,291</b>   | <b>25%</b>   |
| <b>Non-operating profit/(loss)</b>               | <b>(50,107)</b> | <b>(8,139)</b> | <b>516%</b>  |
| Net impairment on financial assets               | (168)           | (411)          | -59%         |
| Finance income                                   | 8,887           | 2,795          | 218%         |
| Finance cost                                     | (19,997)        | (7,106)        | 181%         |
| Net FX loss                                      | (38,829)        | (3,417)        | 1036%        |
| <b>Profit/(loss) before tax</b>                  | <b>(43,518)</b> | <b>(2,848)</b> | <b>1428%</b> |
| Income tax                                       | 14,965          | 39             | 38440%       |
| <b>Profit/(loss) after tax</b>                   | <b>(28,553)</b> | <b>(2,809)</b> | <b>916%</b>  |
| Balance Sheet (N'mn)                             | 9M 2023         | 9M 2022        | Growth (%)   |
| <b>Assets</b>                                    |                 |                |              |
| PP & E   | 257,421         | 249,985        | 3%           |
| Inventories                                      | 42,287          | 30,721         | 38%          |
| Receivables                                      | 15,951          | 23,379         | -32%         |
| Investment securities                            | 194,450         | 39,539         | 392%         |
| Cash   | 17,449          | 19,403         | -10%         |
| Others   | 74,985          | 51,948         | 44%          |
| <b>Total Assets</b>                              | <b>602,543</b>  | <b>414,975</b> | <b>45%</b>   |
| <b>Liabilities</b>                               |                 |                |              |
| Borrowings                                       | 320,209         | 115,316        | 178%         |
| Payables   | 150,191         | 144,291        | 4%           |
| Others   | 16,991          | 19,569         | -13%         |
| <b>Total Liabilities</b>                         | <b>487,392</b>  | <b>279,176</b> | <b>75%</b>   |
| <b>Net Assets</b>                                | <b>115,152</b>  | <b>135,799</b> | <b>-15%</b>  |

Source: Company Accounts, WSTC Research

## Financial Projections

| Income statement (NGN mn)        | FY 2021  | FY 2022  | FY2023F  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
|----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Revenue                          | 182,298  | 218,650  | 253,758  | 296,897  | 353,307  | 406,303  | 459,122  | 518,808  |
| EBITDA                           | 31,120   | 36,034   | 51,498   | 61,545   | 78,211   | 96,462   | 99,947   | 114,192  |
| EBIT                             | (7,839)  | (6,913)  | 661      | 2,934    | 9,035    | 16,566   | 15,414   | 18,663   |
| Profit before taxation (PBT)     | (19,836) | (26,844) | (49,557) | (24,003) | (16,264) | (7,144)  | (7,850)  | (4,367)  |
| Net profit (PAT)                 | (17,657) | (21,626) | (32,660) | (15,819) | (10,719) | (4,708)  | (5,174)  | (2,878)  |
| EPS (₦)                          | (0.66)   | (0.81)   | (1.22)   | (0.59)   | (0.40)   | (0.18)   | (0.19)   | (0.11)   |
| DPS (₦)                          | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     |
| Balance sheet (NGN mn)           | FY 2021  | FY 2022  | FY2023F  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
| Current assets                   | 188,094  | 171,643  | 227,016  | 202,229  | 177,604  | 205,290  | 202,177  | 210,189  |
| Non-current assets               | 281,859  | 312,609  | 317,816  | 316,404  | 315,735  | 306,243  | 301,410  | 300,643  |
| Total assets                     | 469,953  | 484,252  | 544,832  | 518,633  | 493,340  | 511,533  | 503,587  | 510,832  |
| Current liabilities              | 325,679  | 210,841  | 173,348  | 233,411  | 248,882  | 284,856  | 282,855  | 296,835  |
| Non-current liabilities          | 8,970    | 156,080  | 286,813  | 216,370  | 186,324  | 173,252  | 172,480  | 168,623  |
| Shareholders' equity             | 135,304  | 117,330  | 84,671   | 68,852   | 58,134   | 53,425   | 48,252   | 45,374   |
| Book value per share (₦)         | 5.04     | 4.37     | 3.15     | 2.56     | 2.16     | 1.99     | 1.80     | 1.69     |
| Cash flow statement (NGN mn)     | FY 2021  | FY 2022  | FY2023F  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
| Cash from operating activities   | 52,042   | 42,667   | 23,924   | 63,848   | 79,882   | 119,197  | 88,293   | 92,848   |
| Cash from investing activities   | (86,496) | (66,524) | (44,092) | (50,972) | (62,032) | (63,781) | (71,921) | (86,205) |
| Cash from financing activities   | 50,449   | (6,920)  | 68,623   | (49,275) | (49,657) | (29,498) | (23,054) | (12,755) |
| Net increase/ (decrease) in cash | 15,994   | (30,777) | 48,455   | (36,399) | (31,807) | 25,918   | (6,682)  | (6,112)  |
| Free cash flow to equity         | 74,539   | (22,844) | 37,177   | (41,837) | (37,345) | 20,374   | (13,243) | (13,292) |
| Ratio analysis                   | FY 2021  | FY 2022  | FY2023F  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
| EBITDA margin                    | 17%      | 16%      | 20%      | 21%      | 22%      | 24%      | 22%      | 22%      |
| Operating margin                 | -4%      | -3%      | 0%       | 1%       | 3%       | 4%       | 3%       | 4%       |
| ROE                              | n/a      | n/a      | n/a      | n/a      | n/a      | n/a      | n/a      | n/a      |
| ROA                              | n/a      | n/a      | n/a      | n/a      | n/a      | n/a      | n/a      | n/a      |
| Dividend payout ratio (%)        | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       |

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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