

July 18, 2024



Earnings Note

Event

Guinness Nigeria Plc (“the Company”) achieved a 44% revenue growth to N77.71 billion in Q3 2024 (Q3 2023: N54.03 billion), driven by implemented pricing strategy to combat inflationary pressures amid volume decline, and optimised product offerings, with focus on premium categories.

However, the intense competition for a share of consumers income in the highly competitive breweries industry limited the extent of pricing power. Hence, the revenue growth was inadequate to offset the impact of rising input costs on margins. Specifically, cost of goods surged by 56%, reaching N55.99 billion (Q3 2023: N35.93 billion), primarily due to currency volatility and sticky inflationary pressures affecting both imported and locally sourced materials. Consequently, gross margin contracted to 28% (Q3 2023: 33%), despite gross profit climbing higher by 20% to N21.72bn.

Operating profit margin also contracted to 7% (Q3 2023: 9%), as operating hurdles were compounded by a 20% rise in operating expenses to N16.45 billion (Q3 2023: N13.74 billion). This increase stemmed from the impact of inflation and increased energy prices on operating activities.

Adding to the Company’s operating challenge, FX losses worsened to N57.68 billion (Q3 2023: N448.03 million), owing to the further depreciation of the Naira. Additionally, net finance cost rose by 142% to N4.17 billion (Q3 2023: N1.73 billion), as the 133% growth in finance cost overshadowed the 99% increase in finance income. Notably, these increases were driven by the heightened interest rate.

Consequently, the Company sustained its net loss position for the second time in the 2024 fiscal year, as it reported a loss after tax of N56.42 billion in Q3 2024, from a net profit position of N1.84 billion in Q3 2023.

2024 Quarterly Performance

Income Statement (N'mn)	Q3 2024	Q2 2024	Q1 2024
Revenue	77,707	83,059	59,536
Cost	(55,986)	(55,258)	(41,399)
Gross profit	21,721	27,801	18,138
Operating profit	5,821	8,523	7,874
FX loss	(57,676)	(16,603)	(3,511)
Profit/(loss) after tax	(56,418)	(7,830)	2,596

Source: Company Accounts, WSTC Research

HOLD

Fair Value Estimate:

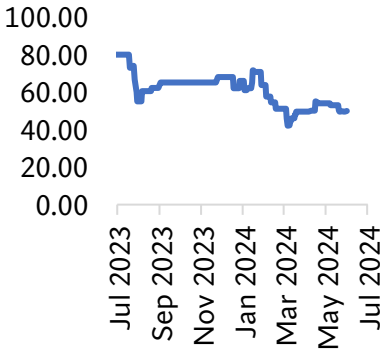
N67.82

Total return: +6%

Stock Data

Current price (N)	64.05
Shares Outstanding (mn)	2,190
Market Cap (N'mn)	140,294
52-week high (N)	74.00
52-week low (N)	42.05
Trailing EPS (N)	(8.29)
Forward EPS (N)	(29.39)
Forward PE (X)	N/A
Justified PE Multiple (X)	N/A

Price Movement



Stock Data	FY 2022	FY 2023	FY 2024F
P/E	8.96x	n/a	n/a
P/BV	1.56x	2.49x	3.23x
PBT Margin	11%	-10%	-22%
PAT Margin	8%	-8%	-22%
RoE	19%	-25%	-129%
Dividend Yield	11%	0%	0%

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Corporate Action.

In June 2024, investors were notified of Tolaram's acquisition of Diageo's 58.02% stake in Guinness Nigeria at N81.60 per share. According to the press release, Tolaram will establish a long-term license and royalty agreements for the continued production of the Guinness brand, and its locally manufactured Diageo ready-to-drink and mainstream spirits brands. The transaction is slated for completion within the 2025 fiscal year, subject to regulatory approvals. Investors responded positively to this news, driving the company's share price up from its pre-announcement level of N54.80, to the current level of N64.05.

Q3 2024 Financial Performance

Income Statement (N'mn)	Q3 2024	Q3 2023	Growth (%)
Revenue	77,707	54,027	44%
Cost	(55,986)	(35,931)	56%
Gross profit	21,721	18,095	20%
Other income	551	526	5%
Operating income	22,272	18,621	20%
Marketing expense	(11,476)	(9,610)	19%
Admin expense	(4,974)	(4,131)	20%
Operating expense	(16,451)	(13,741)	20%
Operating profit	5,821	4,880	19%
Non-operating income/(expense)	(61,845)	(2,173)	2746%
FX loss	(57,676)	(448)	12773%
Finance income	733	375	96%
Finance cost	(4,903)	(2,100)	133%
Profit/(loss) before tax	(56,023)	2,708	-2169%
Income tax	(395)	(866)	-54%
Profit/(loss) after tax	(56,418)	1,841	-3164%

Source: Company Accounts, WSTC Research

Outlook

Following the Company's initial announcement of plans to stop importing or distributing certain Diageo International Premium Spirits (IPS) products, which includes Johnnie walker, Singleton, Baileys, and others by April 2024, we anticipated a potential reduction in FX losses for the Company. However, the Company revised its plan, postponing the separation of IPS brands from Guinness Nigeria Plc until later in the 2025 fiscal year. This update suggest that FX losses will persist at elevated levels through FY 2024, hence, we project FX loss of N105.37 billion by year-end. Consequently, we now expect a net loss of N64.37 billion for FY 2024 despite a projected 20% increase in operating profit,.

Although we expect that the Company's profitability will suffer from foreign exchange losses, the proposed Tolaram's acquisition of Diageo's 58.02% stake offers potential for enhanced performance in the medium term, supported by expected synergy. We opine that Guinness Nigeria stands to benefit from leveraging Tolaram's extensive operation, prompting us to adjust our fair value for the stock to N67.82 (previous: N65.91). However, given the recent stock price appreciation, our revised fair value offers a total return of 6%, hence our recommendation for the stock is now a **HOLD** (previous recommendation: BUY).

9M 2024 Financial Performance

Income Statement (N'mn)	9M 2024	9M 2023	Growth (%)
Revenue	220,303	172,478	28%
Cost	(152,643)	(112,093)	36%
Gross profit	67,660	60,386	12%
Other income	3,065	1,480	107%
Operating income	70,725	61,866	14%
Marketing expense	(35,267)	(31,539)	12%
Admin expense	(13,239)	(12,897)	3%
Operating expense	(48,506)	(44,436)	9%
Operating profit	22,218	17,430	27%
Non-operating income/(expense)	(82,674)	(7,488)	1004%
FX loss	(77,279)	(6,146)	1157%
Finance income	1,851	1,684	10%
Finance cost	(7,247)	(3,026)	139%
Profit/(loss) before tax	(60,456)	9,942	-708%
Income tax	(1,196)	(4,077)	-71%
Profit/(loss) after tax	(61,652)	5,866	-1151%
Balance Sheet (N'mn)	9M 2024	9M 2023	Growth (%)
Assets			
PP & E	98,168	98,553	0%
Inventories	45,795	36,686	25%
Receivables	20,447	21,231	-4%
Prepayments	0	730	-100%
Cash	68,499	58,032	18%
Others	1,750	2,378	-26%
Total Assets	234,658	217,610	8%
Liabilities			
Borrowings	39,487	34,310	15%
Payables	193,930	85,921	126%
Others	5,965	16,921	-65%
Total Liabilities	239,382	137,152	75%
Net Assets	(4,724)	80,458	-106%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Revenue	206,822	229,441	293,044	316,192	358,816	401,395	447,437	498,390
EBITDA	32,955	32,922	39,451	48,581	57,824	62,048	67,017	72,165
EBIT	24,347	23,440	28,015	35,935	43,651	48,558	48,842	51,923
Profit before taxation (PBT)	23,674	(22,139)	(65,592)	(2,176)	34,238	42,691	40,227	43,159
Net profit (PAT)	15,651	(18,168)	(64,370)	(1,480)	23,282	29,030	27,354	29,348
EPS (₦)	7.15	(8.29)	(29.39)	-0.68	10.63	13.25	12.49	13.40
DPS (₦)	7.14	0.00	0.00	0.00	3.19	5.30	5.00	5.36
Balance sheet (NGN mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Current assets	117,601	141,803	131,167	67,042	66,035	87,351	88,532	105,942
Non-current assets	98,059	99,945	101,794	105,335	109,561	112,609	118,696	119,005
Total assets	215,660	241,748	232,961	172,377	175,596	199,960	207,228	224,947
Current liabilities	113,733	183,671	239,185	180,077	159,976	162,268	153,757	153,033
Non-current liabilities	11,948	1,652	1,722	1,725	1,764	1,791	1,827	1,863
Shareholders' equity	89,979	56,425	-7,946	-9,426	13,856	35,901	51,644	70,050
Book value per share (₦)	41.08	25.76	(3.63)	(4.30)	6.33	16.39	23.58	31.98
Cash flow statement (NGN mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Cash from operating activities	28,119	34,380	99,706	(1,863)	31,699	41,479	45,200	57,705
Cash from investing activities	(6,844)	(6,317)	(1,518)	(8,656)	(11,160)	(10,609)	(21,972)	(18,480)
Cash from financing activities	12,052	(8,885)	(129,499)	(45,676)	(15,699)	(13,956)	(18,500)	(18,627)
Net increase/ (decrease) in cash	33,326	19,178	(31,311)	(56,195)	4,841	16,914	4,728	20,598
Free cash flow to equity	33,342	23,658	(43,023)	(63,648)	(2,281)	18,071	14,173	29,612
Ratio analysis	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
EBITDA margin	16%	14%	13%	15%	16%	15%	15%	14%
Operating margin	12%	10%	10%	11%	12%	12%	11%	10%
ROE	19%	-25%	-266%	17%	1051%	117%	62%	48%
ROA	8%	-8%	-27%	-1%	13%	15%	13%	14%
Dividend payout ratio (%)	100%	0%	0%	0%	30%	40%	40%	40%

Source: Company Accounts, WSTC Research



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- 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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