

GUINNESS NIGERIA PLC



...Macroeconomic Challenges Bite Deep, but Growth Prospects Remain in Sight

August 22, 2024



Earnings Note

Event

Guinness Nigeria Plc (“the Group”) navigated a challenging operating environment in the 2024 fiscal year, as intensifying inflationary headwinds shrunk consumer purchasing power. Specifically, the Headline Inflation which stood at 24.08% at the start of the Group’s 2024 fiscal year (July 2023), surged to 34.19% by the end of the fiscal year (June 2024), exerting downward pressure on volume sales and escalating input costs. Concurrently, Naira depreciation inflicted further losses, ultimately leading to a sustained net loss position for the Group.

Pricing Strategy Boosts Revenue, but Margin Compression Persists.

Strategic pricing strategy, complemented by premiumisation and innovative offerings, drove revenue up by 31% to N299.49 billion (FY 2023: N229.44 billion), despite an 18% decline in overall volume. However, cost of goods sold outpaced revenue growth, rising by 37% to N208.03 billion (FY 2023: N151.31 billion), underscoring the intense competition in the breweries sector, which limits pricing power. The surge in cost of goods was driven by the adverse impact of Naira depreciation, and inflationary pressures on raw materials and utility expenses. Consequently, gross margin contracted by 350 basis points to 31% (FY 2023: 34%).

According to management, the Group intensified trade and consumers engagement through digital platforms, activations, and enhanced brand visibility. However, these efforts, combined with high inflation, led to a 19% year-on-year rise in operating expenses. As a result, operating margin contracted by 200 basis points to 8% (FY 2023: 10%), notwithstanding a 9% growth in operating profit to N25.42 billion (FY 2023: N23.37 billion).

FX Loss Dominate Headwinds

FX loss took center stage, as the Group reported a 113% year-on-year growth in FX loss to N92.99 billion (FY 2023: N45.51 billion), solely due to the ripple effect of Naira depreciation. Additionally, net finance cost escalated by 32% year-on-year to N6.10 billion (FY 2023: N1.93 billion), driven by a 104% spike in finance cost, which dwarfed the modest 9% gain in finance income, both attributable to heightened interest rates.

Consequently, loss before tax worsened to N73.68 billion (FY 2023: N22.14 billion). Despite a tax credit of N18.91 billion (FY 2023: N3.97 billion), the Group reported a net loss of N54.77 billion (FY 2023: N18.17 billion).

HOLD

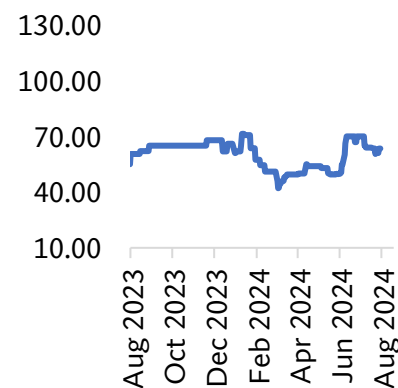
Fair Value Estimate:
N69.99

Total return: +10%

Stock Data

Current price (N)	63.50
Shares Outstanding (mn)	2,190
Market Cap (N'mn)	139,089
52-week high (N)	71.50
52-week low (N)	42.05
Trailing EPS (N)	(25.00)
Forward EPS (N)	(5.51)
Forward PE (X)	N/A
Justified PE Multiple (X)	N/A

Price Movement



Stock Data	FY 2023	FY 2024	FY 2025F
P/E	n/a	n/a	n/a
P/BV	2.47x	64.35x	-14.04x
PBT Margin	-10%	-25%	-5%
PAT Margin	-8%	-18%	-3%
RoE	-25%	-187%	312%
Dividend Yield	0%	0%	0%

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The Group's net loss adversely impacted retained earnings, plunging it into a negative position of N46.38 billion, a stark reversal from the previous year's positive balance of N7.88 billion. This in turn reduced total equity by 96% to N2.16 billion (FY 2023: N56.43 billion).

Furthermore, total assets plummeted by 6% to N226.13 billion (FY 2023: N241.75 billion), due to lower cash and cash equivalent. This reduction stemmed from the repayment of loans during the period, which resulted in a 37% decline in current loans.

FY 2024 Financial Performance

Income Statement (N'mn)	FY 2024	FY 2023	Growth (%)
Revenue	299,490	229,441	31%
Cost	(208,031)	(151,308)	37%
Gross profit	91,459	78,133	17%
Other income	3,177	3,531	-10%
Operating income	94,636	81,664	16%
Marketing expense	(49,690)	(41,249)	20%
Admin expense	(19,523)	(17,048)	15%
Operating expense	(69,213)	(58,297)	19%
Operating profit	25,423	23,367	9%
Non-operating income/(expense)	(99,103)	(45,505)	118%
FX loss	(92,992)	(43,571)	113%
Finance income	2,474	2,265	9%
Finance cost	(8,569)	(4,190)	104%
Net charge for expected credit loss on financial assets	(16)	(9)	76%
Profit/(loss) before tax	(73,680)	(22,139)	233%
Income tax	18,913	3,971	376%
Profit/(loss) after tax	(54,767)	(18,168)	201%
Balance Sheet (N'mn)	FY 2024	FY 2023	Growth (%)
Assets			
PP & E	101,321	99,178	2%
Inventories	41,857	34,470	21%
Receivables	13,226	11,973	10%
Prepayments	1,561	1,643	-5%
Cash	45,804	92,125	-50%
Others	22,360	2,360	847%
Total Assets	226,130	241,748	-6%
Liabilities			
Borrowings	40,133	63,756	-37%
Payables	175,905	111,236	58%
Others	7,931	10,332	-23%
Total Liabilities	223,969	185,324	21%
Net Assets	2,161	56,425	-96%

Source: Company Accounts, WSTC Research

Outlook

For FY 2025, we adopt a cautious stance about the likelihood of a shift to net profit, as the Group continues to grapple with intense industry competition, currency volatility, and elevated input and operating costs, which will counterbalance the anticipated revenue growth. We forecast a 20% revenue growth to N359.89 billion, driven by higher pricing and sustained premiumisation, however, we expect margins to remain pressured.

On FX loss, we anticipate a substantial reduction, underpinned by our expectation of reduced Naira volatility in the 2025 fiscal year. Considering the macroeconomic headwinds, we expect the Group to remain in a net loss position in 2025, albeit at a level lower than the loss incurred in 2024. Specifically, we project a net loss of N12.07 billion for the year, with an anticipated return to profitability in subsequent years, underpinned by Tolaram's acquisition, which is poised to unlock operational synergies, and supply chain efficiencies.

Our fair value for the stock is now N69.99 (previous: N67.82). At the current price of N63.50, we retain our **HOLD** recommendation for the stock, with a total return of 10%.

Financial Projections

Income statement (NGN mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Revenue	229,441	299,490	359,887	445,974	530,598	633,344	756,539	901,332
EBITDA	32,849	35,504	34,061	49,967	66,024	78,771	91,128	113,700
EBIT	23,367	25,423	21,389	35,605	51,062	60,262	72,052	89,176
Profit before taxation (PBT)	(22,139)	(73,680)	(17,746)	6,463	27,019	39,097	53,466	72,269
Net profit (PAT)	(18,168)	(54,767)	(12,067)	4,395	18,373	26,586	36,357	49,143
EPS (₦)	(8.29)	(25.00)	-5.51	2.01	8.39	12.14	16.60	22.44
DPS (₦)	0.00	0.00	0.00	0.00	2.52	3.64	4.98	6.73
Balance sheet (NGN mn)	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Current assets	141,803	103,556	74,542	77,922	87,410	110,788	130,140	154,260
Non-current assets	99,945	122,575	123,918	125,671	129,813	132,873	139,558	146,620
Total assets	241,748	226,130	198,460	203,592	217,223	243,661	269,698	300,881
Current liabilities	183,671	222,685	207,073	207,765	202,993	208,310	205,917	198,802
Non-current liabilities	1,652	1,284	1,293	1,338	1,368	1,414	1,463	1,525
Shareholders' equity	56,425	2,161	-9,906	-5,511	12,862	33,936	62,317	100,553
Book value per share (₦)	25.76	0.99	(4.52)	(2.52)	5.87	15.49	28.45	45.91
Cash flow statement (NGN mn)	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Cash from operating activities	34,380	80,140	(10,796)	53,064	37,227	51,876	50,714	69,396
Cash from investing activities	(6,317)	(6,222)	(793)	(4,329)	(9,583)	(11,803)	(17,700)	(24,375)
Cash from financing activities	(8,885)	(123,799)	(27,701)	(55,267)	(28,218)	(35,107)	(31,052)	(32,394)
Net increase/ (decrease) in cash	19,178	(49,881)	(39,290)	(6,532)	(574)	4,966	1,962	12,628
Free cash flow to equity	23,658	(52,202)	(52,422)	(18,169)	(9,957)	891	2,097	16,573
Ratio analysis	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
EBITDA margin	14%	12%	9%	11%	12%	12%	12%	13%
Operating margin	10%	8%	6%	8%	10%	10%	10%	10%
ROE	-25%	-187%	312%	-57%	500%	114%	76%	60%
ROA	-8%	-23%	-6%	2%	9%	12%	14%	17%
Dividend payout ratio (%)	0%	0%	0%	0%	30%	30%	30%	30%

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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