

## Loss Position Worsens Despite Modest Topline Growth

### As Strong First Half Performance Props Topline Expansion

International Breweries Plc. (**INTBREW**) in its 2019FY financial scorecard posted a 9.73% expansion in revenue to NGN132.35bn from NGN120.61bn in 2018FY. In contrast to the first two quarters where the firm recorded double digit growth in revenue YoY (Q1- 35.16%; Q2 -23.54%), third and fourth quarter revenue declined by 5.32% and 5.83% respectively, which made total revenue settle lower than expected. **While there has been no guidance from management about individual product performance, market feelers suggests that consumers were not receptive to the price increase on Budweiser in the last quarter of the year, resulting in reduced sales.** However, its other products (particularly *Trophy* and *Hero*) remain regional favorites, contributing significantly to overall sales. In March 2020, INTBREW launched *Trophy Extra Special Stout*, to further improve its product offering, however, marketing campaigns were muted given the timing of the launch which coincides with the outbreak of the COVID-19 pandemic. **As competitive pressure remains amid current realities, and as observed in the past two quarters where sales have declined consecutively, we project topline performance to come in lower this year. This will be further worsened by the limitation of social gatherings by the Federal Government, which could hinder the demand for alcoholic beverages in this period.** Hence, we project a drop in revenue by 4.20% to NGN126.79bn in 2020FY.

### Operational Inefficiencies & Finance Costs Worsens Loss Position

The improvement in topline was offset by a steep rise in cost of sales (26.81% ) to NGN107.14bn from NGN84.49bn in 2018FY. Raw material expense and overhead costs as well as amortization on containers shot up by 26.09% and 82.42% respectively. This precipitated a 1090bps contraction in gross margin to 19.05%, as cost to sales climbed to 80.95% in 2019FY (vs. 70.05% in 2018FY). Likewise, OPEX also rose by 64.05% to NGN42.14bn, as operating margin further worsened to -15.86%. **The elevation in OPEX was a direct consequence of the brewer's heavy spending on advertising during the year which jumped by 63.88% to NGN15.97bn, as it sought to hold its own amidst the intense industry competition.** Finance costs remained elevated, although it declined by 5.32%, to NGN15.18bn but this was not nearly enough to assuage **INTBREW's** loss position, which worsened to NGN27.79bn. Net margin therefore deteriorated further to -21.00% (from -3.26% in 2018FY). Due to the persistent cost pressures and finance costs, we still expect the firm to remain at a loss position at the end of 2020FY.

### Deleveraging Balance Sheet; a Step in the Right Direction

**INTBREW** successfully raised NGN165bn via Rights issue in November as it seeks to deleverage its balance sheet. Flowing from the intended use of proceeds, we expect the brewers debt burden to fall to c. NGN81.00bn. **As a result, we envisage that finance costs will hover between NGN5.5bn - NGN6bn in 2020FY.** While this should relieve pressure on earnings going forward, we reiterate that the benefits of the deleveraged balance sheet will not be felt without a strategy in place to effectively cut costs.

### Outlook and Recommendation

We estimated a 2020 EBITDA margin of 8.50% (NGN10.78bn) and applied a target EV/EBITDA multiple of 16.84x to arrive at our target price of NGN4.27. Based on the closing price of NGN4.90 as of April 7<sup>th</sup>, 2020, this represents an downside potential of 12.86%. Thus, we place a **SELL** recommendation on the ticker.

Company	INTBREW
<b>Valuation</b>	
EPS	-3.23
BVPS	0.87
P/E	-1.52x
P/BV	5.64x
Target EV/EBITDA	16.84
Dec-2020 EBITDA	
NGN	10.78bn
Dec-2020 Target price	4.27
Current Price	4.90
Up/Downside Potential	-12.86%
<b>Ratings</b>	<b>SELL</b>
<b>Key metrics</b>	
ROaE	-130.54%
ROaA	-8.23%
Net margin	-21.00%
Asset Turnover	0.36x
Leverage	35.32x
Yr Hi	9.50
Yr Lo	4.90
YTD return	-48.42%
Beta	0.59
Adjusted Beta	0.72
Shares outstanding	26.86bn
Market cap [NGN]	131.62bn
Financial year end	December
Most Recent Period (MRP)	2019FY

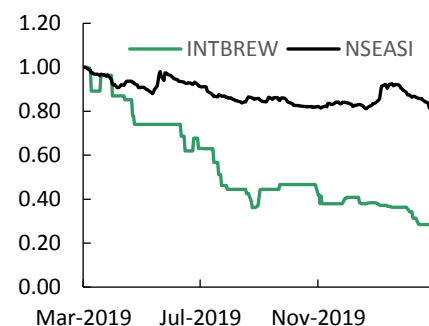


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	3.47
EBITDA (NGN'bn)						Max	4.88
		10.00	10.50	10.78	11.00	11.50	
Target EV/EBITDA	16.00	3.47	3.77	3.93	4.06	4.36	
	16.50	3.65	3.96	4.13	4.27	4.58	
	16.84	3.78	4.09	4.27	4.41	4.72	
	17.00	3.84	4.16	4.33	4.47	4.79	
	17.20	3.92	4.24	4.41	4.56	4.88	

Financial Highlights (NGN billion) INTERNATIONAL BREWERIES PLC Audited Results			
Profit & Loss Account	2019FY	2018FY	y/y Growth
Revenue	132.35	120.61	9.73%
Cost of Sales	(107.14)	(84.49)	26.81%
Gross Profit	25.21	36.12	-30.21%
Other Income	(0.66)	0.81	-182.06%
OPEX	(42.14)	(25.69)	64.05%
Operating Profit	(20.98)	7.84	-367.78%
Finance Costs	(15.18)	(16.04)	-5.32%
PBT	(36.17)	(8.12)	345.60%
PAT	(27.79)	(3.93)	606.52%
Balance Sheet	2019FY	2018FY	
PPE	271.16	243.37	11.42%
Inventories	21.98	19.86	10.67%
Trade and Other Receivables	27.80	28.02	-0.78%
Cash and cash equivalents	31.81	17.36	83.24%
Other Assets	12.40	1.70	630.15%
<b>Total Assets</b>	<b>365.15</b>	<b>310.31</b>	<b>17.67%</b>
Shareholders' fund	7.46	35.11	-78.74%
Trade and Other Payables	88.19	53.99	63.32%
Total Borrowings	263.64	217.18	21.39%
Total Liabilities	357.68	275.19	29.97%

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## Movements in Price Target

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**Company Name:** International Breweries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
08-August-2019	NGN12.00	N/A	NGN6.04	N/A	SELL
07-April-2020	NGN4.90	NGN6.04	NGN4.27	SELL	SELL

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International Breweries Plc.	

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