

Earnings Dampened by High Operating Expenses

Topline Stays Resilient Amid Mounting Pressures

Nigerian Breweries Plc. (NB) started off its 2020 financial year on a muted note as topline performance was flat in its recently released Q1:2020 result. The firm recorded a revenue of NGN83.20bn, a marginal decline (-0.09%) from the corresponding year's NGN83.28bn. *This slight drop suggests that the brewers' decision to increase product prices last year, had no dampening effect on consumer patronage. However, the downside risks to the company's sales have increased since our pre COVID-19 assessment. This is owing to the current restriction of movements across key states, which is expected to negatively impact the demand for alcoholic beverages, as it's a non-essential commodity.* While we acknowledge that the FG's decision to ease restrictions will lead to a gradual pickup in economic activities, we expect this to be contained, which gives us a downbeat prognosis of sales performance this period. Hence, we revised our 2020FY revenue projection downwards to NGN314.47bn, representing a decline of 2.64% from NGN323.01bn recorded in 2019FY.

Cost Pressure Dampen Earnings

Although revenue remained flattish, cost of sales ticked up to NGN48.34bn - a 0.23% increase from Q1:2019. This pushed cost to sales to 58.09% from 57.91% in Q1:2019, contracting gross margin to 41.91% (vs. 42.09% in Q1:2019). Similarly, OPEX jumped by 14.10% to NGN24.14bn as the brewer intensified its sales & distribution efforts during the period. Finance costs also went up by 1.46% to NGN2.65bn due to increases in interest expenses, as the brewer took up additional NGN27.00bn (loans & borrowings) and NGN51.06bn in commercial papers during the period. Year on Year, PAT was down by 31.40%, to NGN5.51bn, dragging net margin to 6.62% (vs. 9.64% in Q1:2019). Based on our expectation of a decline in topline, mounting cost pressures and underwhelming earnings recorded in Q1, we revised our PAT projection downwards by 14.73% to NGN12.79bn in 2020FY (which implies a 20.58% decline from NGN16.11bn in 2019FY).

Positive Net Accruals Reflects Poor Earnings Quality

NB's net cash from operations came in at a loss (NGN1.12bn) in Q1:2020, compared to NGN7.23bn recorded in Q1:2019. Thus, net operating accruals pegged at NGN6.62bn as net income surpassed net cash from operations by 570.09%, reflecting the company's poor earnings quality during the period. We also note a deterioration in the firm's working capital position to -NGN93.10bn, which is worse off when compared to the negative position of -NGN67.00bn as at 2019FY. However, with expected inflows from April's CP issuance, we anticipate an improvement in working capital in the coming period.

Outlook and Recommendation

Our outlook in the near term is shrouded by the effects of COVID-19 on the company's sales which is further worsened by the pre-existing challenges in the industry. Consequently, we have revised our December 2020 expected EPS to NGN1.60 from NGN1.88 to reflect current realities. After applying this to our target PE of 25.00x, we arrived at a target price of NGN40.00, representing an upside potential of 28.82% when compared to the closing price of NGN31.05 as at 29th of April. Hence, we place a **BUY** recommendation on the ticker.

Company	NB
Valuation	
Trailing EPS	1.70
BVPS	21.66x
P/E	20.29x
P/BV	1.59x
Target PE	25.00x
Dec-2020 Exp. EPS	1.60x
Dec 2020 Target price	40.00
Current Price	31.05
Up/Downside Potential	+28.82%
Ratings	BUY
Key metrics	
ROAE	7.98%
ROAA	3.34%
Net margin	6.62%
Asset Turnover	0.75
Leverage	2.49
Yr Hi	59.00
Yr Lo	22.00
YTD return	-62.71%
Beta	0.80
Adjusted Beta	0.86
Shares outstanding	8.00bn
Market cap [NGN]	275.89bn
Financial year end	December
Most Recent Period (MRP)	Q1:2020

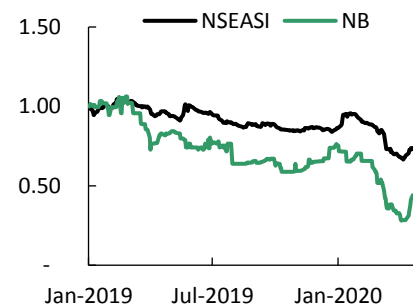


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	36.28
						Max	43.96
						EPS	
		1.48	1.54	1.60	1.66	1.72	
Target PE	24.5x	36.28	37.71	39.20	40.69	42.24	
	24.8x	36.65	38.10	39.60	41.10	42.67	
	25.0x	37.02	38.48	40.00	41.52	43.10	
	25.3x	37.39	38.86	40.40	41.94	43.53	
	25.5x	37.76	39.25	40.80	42.35	43.96	

Financial Highlights (NGN billion) NIGERIAN BREWERIES PLC Q1:2020 Results

<i>Profit & Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Revenue	83.204	83.278	-0.09%
Cost of Sales	48.335	48.223	0.23%
Gross Profit	34.869	35.054	-0.53%
OPEX	24.136	21.154	14.10%
Operating Profit	10.733	13.900	-22.78%
Other Income	0.181	0.157	15.45%
Net Finance Costs	2.647	2.609	1.46%
PBT	8.276	11.458	-27.77%
PAT	5.506	8.026	-31.40%
<i>Balance Sheet</i>	Q1:2020	FY: 2019	
Property, Plant and Equipment	202.928	201.907	0.51%
Inventories	40.885	38.520	6.14%
Trade and other Receivables	28.609	21.307	34.27%
Cash and Cash Equivalents	24.580	6.361	286.41%
Other Assets	134.405	114.682	17.20%
Total Assets	431.407	382.778	12.70%
Shareholders' fund	173.303	167.750	3.31%
Trade and Other Payables	100.334	102.783	-2.38%
Tax Liabilities	23.171	23.171	0.00%
Total Liabilities	258.104	215.028	20.03%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
abisoyeoludipe@meristemng.com (+234 708 000 7861)
contact@meristemng.com

Investment Banking/Corporate Finance

seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

damilolahassan@meristemng.com (+234 803 613 9123)
www.meristemwealth.com
Tel: +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Group Business Development

saheedbashir@meristemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)

Client Services

omosolapeakinpelu@meristemng.com (+234 803 694 3034)
blessingogwuche@meristemng.com (+234 706 896 5173)

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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Movements in Price Target

Company Name: Nigerian Breweries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
29-April-2020	NGN31.50	NGN47.00	NGN40.00	BUY	BUY

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Nigerian Breweries Plc.	

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