

Export Sales Decline Drags Revenue

Lower Volume Precipitates Decline in Revenue

Guinness Nigeria Plc. (**GUINNESS**), in its 9M:2020 financial scorecard (*Full year is June*) reported a 5.31% decline in revenue to NGN96.02bn (vs. NGN101.40bn in 9M:2019). Export sales were down 78.60% Y-o-Y to NGN1.25bn from NGN5.83bn, as the brewer grapples with slowing exports since the loss of malt sales to its sister company in Ghana. On a quarterly basis, Q3:2020 revenue was down by 33.16% to NGN27.69bn - a stark contrast to the 54.02% Q-o-Q growth reported in Q2:2020 (revenue: NGN41.43bn). **According to management, the uninspiring quarterly performance was a result of declining volumes - a fallout of the decision to increase prices in the second half of the year amid increased excise duties. This was worsened by the impact of COVID-19 on sales towards the tail end of March.** Given the underwhelming performance in the past quarters, pre-existing industry challenges plus the dampening impact of COVID-19 on sales, we remain bearish about revenue in the coming period. Thus, we have revised our revenue projection for 2020FY downward to NGN121.27bn, implying a 7.78% decline from NGN131.50 in 2019FY.

OPEX and Finance Costs Erode Production Cost Savings

In line with the decline in revenue, cost of sales dropped by 6.70% to NGN65.22bn, from NGN69.90bn in the corresponding period. This settled cost to sales lower at 67.92% (from 68.93% in the previous period), pegging gross margin at 32.08% (vs. 31.07% as at 9M:2019). Operating expenses on the other hand expanded by 4.89% Y-o-Y due to increase in marketing (+6.01%), distribution (+2.28%) and administrative expenses (+6.73%). Consequently, operating margin logged at 5.43%, contracting from 7.23% in the corresponding period. Finance costs shot up by 97.15% during the period, settling at NGN3.58bn, from NGN1.82bn recorded in 9M:2019. This was buoyed by an increase in interest expense on loans and borrowings (+26.19%), a surge in interest expense on overdrafts (+129.01%) and loss on remeasurement of foreign currency balances (+506.69%). The latter being a consequence of the brewer's exposure to dollar-denominated debt, and the adjustment to the exchange rate following the devaluation of the currency.

Profit before tax declined by 67.92% to NGN2.01bn (vs. NGN6.25bn in the previous period). In the same vein, profit after tax also slumped by 67.97% to NGN1.36bn, settling net margin at 1.42%, from 4.19% in the previous period. **We have cut our 2020FY earnings projection by 43.52% to NGN2.31bn - a 57.85% decline from NGN5.48bn recorded in 2019FY. This is on the back of our expectation of a decline in revenue and elevated operating and finance costs.**

Operating Cashflow and Earnings Quality Show Improvement

GUINNESS generated NGN14.40bn from its core business operations as at 9M:2020, a 35.42% improvement from the NGN10.63bn recorded in the corresponding period of 9M:2019. This surpassed the brewer's net income of NGN1.36bn by 957.41%, resulting in a negative net operating accruals of NGN13.04bn, signaling good earnings quality.

Outlook and Recommendation

To reflect current realities, we have revised our 2020FY EPS to NGN1.06 with a P.E of 23.00x. This gives a target price of NGN24.38 and an upside potential of 35.44% to its closing price of NGN18.00 on the 7th of May, 2020. Thus, we place a **BUY** recommendation on the ticker.

Company	GUINNESS
Valuation	
Trailing EPS	NGN1.18
BVPS	39.76
P/E	15.45x
P/BV	0.46x
Target PE	23.00x
Dec-2020 Exp. EPS	1.06
Dec 2020 Target price	24.38
Current Price	18.00
Up/Downside Potential	35.44%
Ratings	BUY
Key metrics	
RoAE	2.95%
RoAA	1.61%
Net margin	1.42%
Asset Turnover	0.78
Leverage	1.85
Yr Hi	30.20
Yr Lo	17.50
YTD return	-42.05%
Beta	0.62
Adjusted Beta	0.75
Shares outstanding	2.19bn
Market cap [NGN]	40.08bn
Financial year end	June
Most Recent Period (MRP)	9M:2020

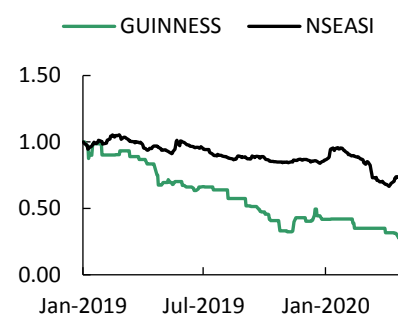


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	22.07
EPS						Max	26.84
Target PE		0.98	1.02	1.06	1.10	1.14	
	22.5x	22.07	22.94	23.85	24.76	25.70	
	22.8x	22.32	23.20	24.12	25.03	25.98	
	23.0x	22.56	23.45	24.38	25.31	26.27	
	23.3x	22.81	23.71	24.65	25.58	26.55	
	23.5x	23.05	23.96	24.91	25.86	26.84	

Financial Highlights (NGN billion) GUINNESS NIGERIA PLC 9M:2020 Financial Results			
Profit & Loss Account	9M:2020	9M:2019	y/y Growth
Revenue	96.02	101.40	-5.31%
Cost of Sales	65.22	69.90	-6.70%
Gross Profit	30.80	31.50	-2.23%
OPEX	26.00	24.79	4.89%
Operating Profit	5.22	7.33	-28.83%
Net Finance Charges	3.21	1.08	197.44%
Other Income	0.42	0.62	-32.47%
PBT	2.01	6.25	-67.92%
PAT	1.36	4.25	-67.97%
Balance Sheet	9M:2020	FY: 2019	
PPE	102.14	100.80	1.33%
Inventories	24.77	25.18	-1.63%
Trade and other Receivables	23.61	26.02	-9.28%
Cash and Cash Equivalents	5.97	4.76	25.55%
Other Assets	4.26	4.04	5.60%
Total Assets	160.75	160.79	-0.03%
Shareholders' fund	87.09	89.06	-2.21%
Trade and Other Payables	33.37	31.92	4.54%
Total Borrowings	21.12	19.93	6.00%
Total Liabilities	73.66	71.73	2.68%

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: Guinness Nigeria Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
31-Oct-2019	NGN23.85	NGN38.59	NGN24.31	HOLD	HOLD
12-Feb-2020	NGN30.30	NGN24.31	NGN31.79	HOLD	HOLD
08-May-2020	NGN18.30	NGN31.79	NGN24.38	HOLD	BUY

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Guinness Nigeria Plc.	

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