

## Net Foreign Exchange Loss Worsens Operating Margin

### Marginal Growth In Revenue

International Breweries Plc. (INTBREW), reported a marginal increase in revenue (+0.72%) to NGN35.35bn in Q1:2020. On a quarter on quarter basis, revenue growth also came in flat, inching up by 0.73% from NGN35.09bn in Q4:2019. **The flattish revenue performance in Q1:2020, which is consistent with the trend observed since the second half of 2019, signifies slowing momentum of the brewer's strategy of undercutting competitors' market share through price discounts. While Q1:2020 results do not reflect the volume weakness induced by the COVID-19 lockdowns, we project that performances in the coming quarters will be underwhelming.** This is due to supply constraints on the back of movement restrictions and the anticipated sluggish demand for alcoholic beverages at this time. Hence, we retain our 2020FY forecast of a drop in sales by 4.20% to NGN126.79bn from NGN132.35bn in 2019FY.

### Production Costs Maintain Uptrend

INTBREW's production costs grew by 11.57% to NGN29.18bn (vs. NGN26.15bn in Q1:2019), fueled by increases in raw material expense and overhead costs (+12.55%), technical management fees (+5.17%) and depreciation expenses (+99.95%). Consequently, cost to sales pegged higher at 82.54% (vs. 74.51% in the corresponding period). The advance in cost of sales, as well as muted topline growth saw gross margin contract to 17.46%, from 25.49% in Q1:2019. OPEX however trod a different path, declining by 2.95% to NGN8.56bn as the brewer slowed down on promotional expenses (-3.30%) and cut down administrative expenses by 2.67%. However, a net foreign exchange loss of NGN9.94bn (due to its foreign loan exposure) saw operating margin deteriorate to -22.75%, from -0.66% in Q1:2019.

Following the debt repayment of NGN164.53bn during the period, interest expense on borrowings fell to NGN0.95bn, 81.31% less than the NGN5.09bn incurred in Q1:2019. Thus, finance costs for the period settled at NGN0.98bn (an 80.65% Y-o-Y slump). Ultimately, the brewer recorded a tax credit of NGN2.05bn which moderated overall loss to NGN5.65bn. **In line with our expectation of a decline in revenue and the persistent cost pressure on the firm, we do not expect the brewer to return to a profit position in 2020FY.**

### Balance Sheet Metrics Signal Improvement

INTBREW's balance sheet metrics improved following the debt repayment from the proceeds of last year's rights issue. Both current and quick ratios inched up from 1.79x and 1.68x (as at 2019FY) to 1.87x and 1.74x respectively signaling improved liquidity. Although ROE has remained negative, the collapse in financial leverage to 2.20x from 48.92x (as at Q1:2019) pegged ROE at -3.43% (vs. -53.43% as at Q1:2019), while asset turnover remained flat at 0.10x.

### Outlook and Recommendation

Our outlook for the brewer is dampened by existing industry headwinds (intense competition among the foremost players, excise duties and weak consumer spending) plus the impact of COVID-19 on sales. Thus, we retain our estimates of 2020FY EBITDA margin at 8.50% (NGN10.78bn) and target EV/EBITDA multiple at 16.84x. This yields a target price of NGN4.27, which represents a downside potential of 12.86% compared to its price of NGN4.90 on May 6<sup>th</sup>, 2020. Therefore, we place a **SELL** recommendation on the ticker.

Company	INTBREW
<b>Valuation</b>	
Trailing EPS	-1.10x
BVPS	6.13
P/E	-4.56x
P/BV	0.82x
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	-34.23%
ROaA	-8.09%
Net margin	-15.97%
Asset Turnover	0.37
Leverage	2.20
<b>Share/Share price Statistics</b>	
Yr Hi	9.50
Yr Lo	4.60
YTD return	-51.58%
Beta	0.59
Adjusted Beta	0.72
Shares outstanding	26.86bn
Market cap [NGN]	134.31bn
Financial year end	December
Most Recent Period (MRP)	Q1:2020

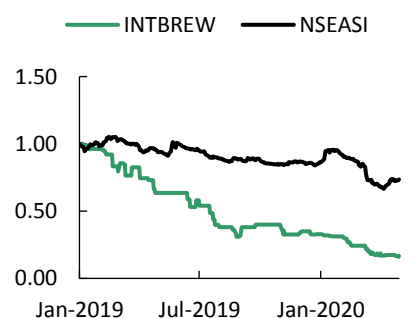


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	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) INTBREW PLC Q1:2020 Unaudited Financial Results

<i>Profit &amp; Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Revenue	35.35	35.10	0.72%
Cost of Sales	29.18	26.15	11.57%
Gross Profit	6.17	8.95	-31.00%
Other Income	4.30	0.00	N/A
OPEX	8.56	8.82	-2.95%
Other gains/(losses)	(9.94)	(0.36)	-2,633.29%
Operating Profit	(8.04)	(0.23)	-3,353.02%
Net Finance Charges	0.35	(5.09)	-106.80%
PBT	(7.69)	(5.32)	-44.69%
PAT	(5.65)	(3.99)	-41.59%
<i>Balance Sheet</i>	Q1:2020	FY: 2019	
PPE	267.42	271.16	-1.38%
Inventories	24.41	21.98	11.09%
Trade and Other Receivables	27.10	27.80	-2.53%
Cash and cash equivalents	25.10	31.81	-21.07%
Other Assets	18.85	12.40	51.99%
<b>Total Assets</b>	<b>362.88</b>	<b>365.15</b>	<b>-0.62%</b>
Shareholders' fund	164.59	7.46	2,105.25%
Trade and Other Payables	84.77	88.19	-3.87%
Total Borrowings	107.39	263.64	-59.27%
Total Liabilities	198.29	357.68	-44.56%

## 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@mersitemng.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](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

---

**Meristem Research can also be accessed on the following platforms:**

**Meristem Research portal:** [meristem.com.ng/rhub](http://meristem.com.ng/rhub)

**Bloomberg:** MERI <GO>

**Capital IQ:** [www.capitaliq.com](http://www.capitaliq.com)

**ISI Emerging Markets:** [www.securities.com/ch.html?pc=NG](http://www.securities.com/ch.html?pc=NG)

**Reuters:** [www.thomsonreuters.com](http://www.thomsonreuters.com)

**FactSet:** [www.factset.com](http://www.factset.com)

---

---

## Analyst's Certification and Disclaimer

---

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

**Analysts' Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

---

## Investment Ratings

---

### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

### Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

### Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

## Definitions

**Price Targets:** Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

**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:** International Breweries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
05-May-2020	4.90	4.27	4.27	SELL	SELL

---

## Company disclosures

---

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
International Breweries Plc.	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

---

## Conflict of Interest

---

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

---

## Important Disclosure

---

**For U.S. persons only:** This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

---

## Legal entity disclosures

---

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2020 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.