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Consumer Goods Sector Update

A Relative Haven?

June 2020

Executive Summary

The Nigerian Consumer Goods sector has undergone an extensive cycle of value generation, having grown organically over the years. Nonetheless, the model that fueled the industry's success in the past is beginning to lose steam in the face of ever-growing industry-wide challenges, constrained disposable income and consequently, weak demand for finished goods. In response to these, industry players have had to remodel their business processes and adopt strategies to accommodate the rapid change in consumption patterns, retain market share and thrive amidst the soaring competition.

The outbreak of the COVID-19 pandemic has not only worsened the existing challenges in the sector, but also remodeled consumption patterns. The enforcement of lockdown protocols to curtail the spread of the virus, inexorably triggered a wave of panic buying on essentials, while demands for other discretionary and non-essential items waned in the absence of social gatherings and robust consumer pockets.

Ultimately, novel approaches, agile operating models and contemporary strategies to match the modification in consumption patterns and decline in disposable income remain crucial to maximizing growth potentials within the industry. The downside risks to these, however, are the upheavals in the global supply chain and the resultant volatilities in commodity prices.

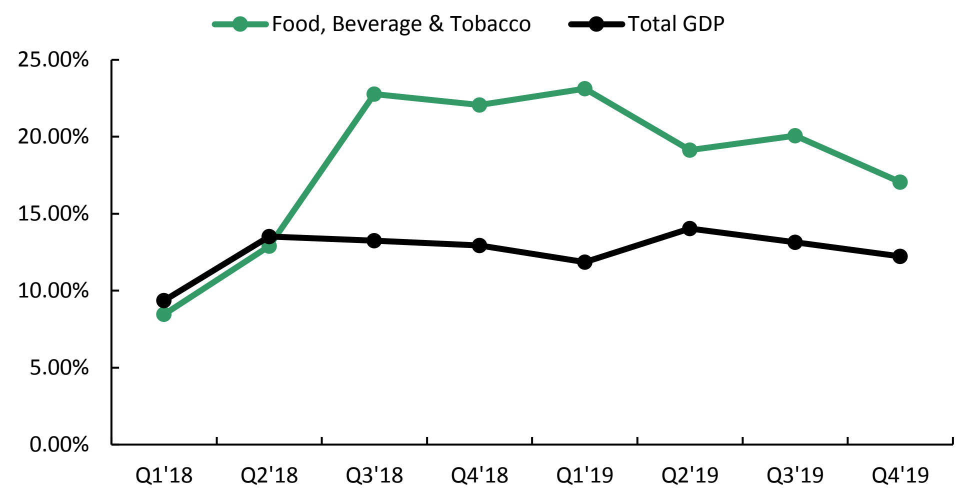
Across the world, the consumer goods industry is termed defensive, given the essential nature of the food items. In this report, we have elaborately analysed the recent themes in the industry while also evaluating the historical performance of major industry players. Conclusively, we examined the factors necessary to re-shape the industry in the coming years.

Content Highlights

Sector Overview

The Consumer Goods sector is the largest constituent of the manufacturing industry in Nigeria, comprising of different sub-sectors such as food, nutrition, beverages and tobacco. The players in the industry range from domestic corporates to multinationals and conglomerates. The Food, Beverage and Tobacco sub-sectors accounted for 45.80% of the manufacturing sector's Gross Domestic Product (GDP), and 4.15% of the overall GDP in 2019FY (vs. 4.00% in 2016FY). The industry recorded a solid growth of 19.70% in 2019 with total output amounting to NGN6.38trn.

Chart 1: Trend in Annual Growth Rates



***Source**: NBS, Meristem Research*

The FMCG sector largely mirrors the macroeconomic environment given that economic policies and prevailing legislations hold significant implications for the sector and the business environment at large. The performance of the industry is also dependent on consumer spending, which is a function of the disposable income of the people. Typically characterized by frequently purchased, relatively cheap and rapidly consumed products, the consumer goods sector is highly competitive as players seek to expand market share. Thus, sales are strongly influenced by promotions, marketing and advertisement campaigns with expenses on these activities accounting for more than 5% of revenue in the industry. Manufacturers in this space also leverage on their extensive distribution networks, consumers' loyalty and distinguishable packaging to drive volumes and to sustain margins across the value chain.

A Game of Numbers

The Nation's massive population is one key driver of the industry's growth *(+19.70% in 2019FY*). With a population of about 200 million and an estimated growth rate of 2.6% per annum, the market for the FMCGs is robust given the non-discretionary nature of the goods. Given the low shelf-life characteristic of most of these products (*particularly the food items*), producers rely on the dense population to rapidly turn over inventories and minimize spoilage. Coupled with that, about 40% of Nigerians live in poverty (according to the 2019 Poverty and Inequality report by the National Bureau of Statistics), yet they spend most of their income on food. More so, the 2019 Consumption Expenditure Report by the National Bureau of Statistics (NBS) revealed that 56.65% of total household expenditure was spent on food, with the rest spent on non-food items.

The towering rate of urbanization, and the rising spate of the youthful and middle-class population is advantageous to the FMCG producers and retailers. With an annual urbanization rate of 4.3%, a demography which mainly consists of the Millennials (who exhibit a certain level of loyalty), the market necessary to drive the required volumes of sales for industry players is present.

Active Government Participation: Make or Mar?

Like other sectors, the Consumer Goods sector has witnessed strong Government interventions and policies, with mixed impacts on the different sub-sectors. An instance is the exclusion of importers of certain goods and services from accessing foreign exchange at the official FX market in 2015, in a bid to manage the external reserves. This left manufacturers whose raw materials were on the 41-listed items stranded, beleaguering the industry, only to be moderated by the introduction of the Investors and Exporters' FX window in 2017.

Earlier this year, the Nigerian Finance Bill was approved and signed into law. Amongst other objectives, it sought to increase the Value Added Tax rate to 7.5% to help fund the budget deficit, minimum wage and provide social services**.** In addition, the bill aims to subject importation of excisable production to duties at the same rates applicable to domestically manufactured items. While this creates a level playing field for local manufacturers, the VAT increase is expected to stifle margins considering the strain in passing it down to consumers.

In August 2019, a directive was issued to shut down the land borders in a bid to check the activities of smugglers, enforce ECOWAS trade protocols with its neighbours and encourage the domestic manufacturing industry. Several producers in the FMCG space especially in the sugar and flour milling segment who have suffered in the hands of smugglers, witnessed a boost in patronage as the unavailability of foreign substitutes triggered a rise in demand for the domestic counterparts.

The brewery industry has also not been left out of active Government regulations as players have been compelled to adapt to incessant Federal policies in time past.

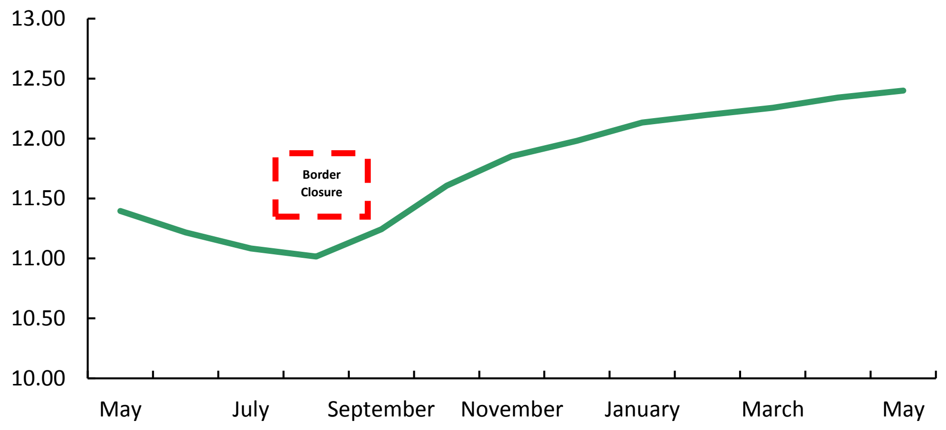
Regulations in this space have spanned across the era of banning barley importation for beer production, the reversal of the ban and then to the imposition of import duties. All of these have had immense impacts on the brewers' value chain. Likewise, the imposition of increased excise duties on alcoholic beverages which took effect in June 2018 (to be implemented over a 3 year period, with a NGN30/litre charge on beer in 2018 and N35/litre each in 2019 and 2020), in order to seek alternative sources of non-oil revenue and also reduce the social consequences of alcohol, has contributed to dampening the performance of the brewers.

In the foods and non-alcoholic space, players are also being regulated by the Government. **NESTLE,** one of the biggest players, currently benefits from the recent Federal Government's directive to restrict FX access in the official window to six companies (*NESTLE, TG Arla, Friesland Campina, Integrated Diaries Limited, Promasidor and Chi*) who have keyed into the backward integration strategies of the Government. The policy aims to increase domestic production of milk, its derivatives and dairy products, as well as limit the demand pressure on FX. According to the Food and Agriculture Organization (**FAO**), locally produced milk in Nigeria accounts for 40% of consumption demand while the remainder (60%) is largely imported. The CBN Governor, Godwin Emefiele, also hinted that Nigeria spends between USD1.2bn and USD1.5bn on milk importation annually. This simple move by the Government rendered the excluded companies outright uncompetitive. A result of the policy is the announcement by **PZ** to sell its dairy subsidiary (Nutricima) to Friesland Campina WAMCO, the producer of Peak Milk.

Shift in Consumption Pattern

There has been a shift in consumer consumption pattern over the years. The declining disposable income of the people, worsened by the effect of the economic downturn in 2016, has not provided respite to consumer spending. On the other hand, inflation rate has remained at elevated levels, contributing to the weakening purchasing power of consumers.

Chart 2: Inflation Rate in Nigeria (2019-2020)



Source: NBS, Meristem Research

Industry players have therefore responded to the declining disposable income by re-engineering their business models to accommodate the change in consumption pattern. This change has materialized in the form of repackaging their products into smaller affordable packs, to increase volumes and also cater to people at the value end of product segments. This is typically the case in the market for food items as products initially packaged in cartons and large packs, are subsequently sold in bits and smaller quantities to consumers (Noodles, Tea bags, cereals, Semovita, Flour, Seasoning cubes and sachet Milk amongst others).

Not only have these firms adapted to the low-pricing and the reality of flexible packaging, they have also been able to trigger competition amongst peers and this has been a driving factor in the industry.
Ultimately, consumers' disposable income remains a key driver in the FMCG space and so long as low-income consumers dominate the retail scene, companies will always need to respond to consumers purchasing power (*adjusting packages as required*) in order to drive volumes on their products.

Profiting from the Pandemic?

The outbreak and rapid spread of the novel coronavirus disease (*COVID-19*) has been met with unprecedented measures by governments around the world, particularly the enforcement of nationwide lockdowns to curb its spread. The IMF has predicted a global economic recession, projecting a 3.00% decline in global output in 2020.
The economic impact of the pandemic will be far-reaching, especially for demand and supply in the consumer goods sector in Nigeria.

Focus Tilts to Essential Commodities

As the spread of the pandemic became more pronounced with many firms enabling their employees to work remotely, consumers stocked up on essential goods such as food, personal care and healthcare products. By Late March when the Federal Government officially announced the imposition of a two-week lockdown in three commercial hubs of Nigeria (Lagos, Ogun and Abuja), demand for essential consumer goods products became frenzied. Considering the sustained increase in the number of confirmed COVID-19 cases in the country which prompted the imposition of another two weeks lockdown, most households have had to restock on essential commodities – including staples, healthcare, hygiene and personal care products. Despite the partial reopening of the economy, a large portion of consumer spending remains directed towards essential needs as the adverse impact of the lockdown on household income continues to bite.

The relief plans by the Federal and State Government resulted in intensified spending on relief packages *(food items especially)* to ease the effects of the lockdown on residents. Religious organizations and civil society groups have also towed the same line; contributing to driving increased demand for consumer goods products. Based on our observation, the palliative packages mainly comprise of packaged foods and seasoning products. Thus, we highlight that most of the companies under our coverage are positioned to derive benefits flowing from their optimized price point and pack sizes across their product offerings.

However, it is important to note that the benefit of increased sales would only accrue to companies who are typically cost efficient and have streamlined their business processes, to positively impact their bottom-line. On this note, we highlight NESTLE and FLOURMILL as likely winners.

Growing Export Restriction; A Reawakening to Backward Integration

In response to the coronavirus pandemic, many countries imposed a ban on the export of food items and primary commodities, while restriction of shipping and cargoes affected raw material availability. Countries like Vietnam, Russia, Kazakhstan, Ukraine and India have placed effective bans on a range of food commodities including rice, grains, potatoes, sugar and others.

The looming shortage of crucial supply reinforced the need for domestic capacity development. This triggered the CBN to release a policy guideline: "*Turning the Covid-19 Tragedy into an opportunity for a new Nigeria*", which emphasises backward integration efforts. This suggests the sector will continue to enjoy institutional support, especially in the area of FX supply for the importation of critical raw materials and equipment.

Chart 3: Wheat Imports (USD 'bn)

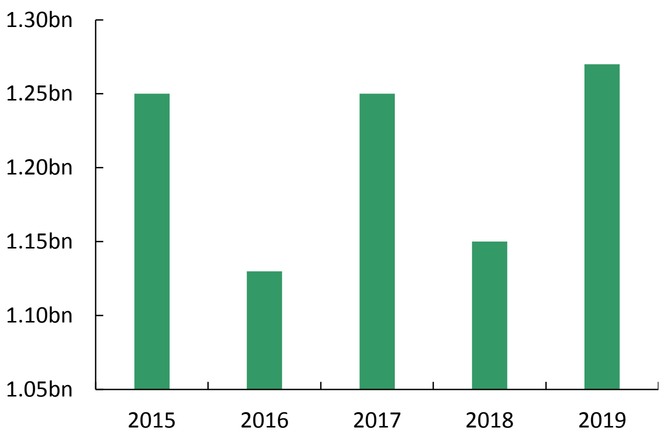
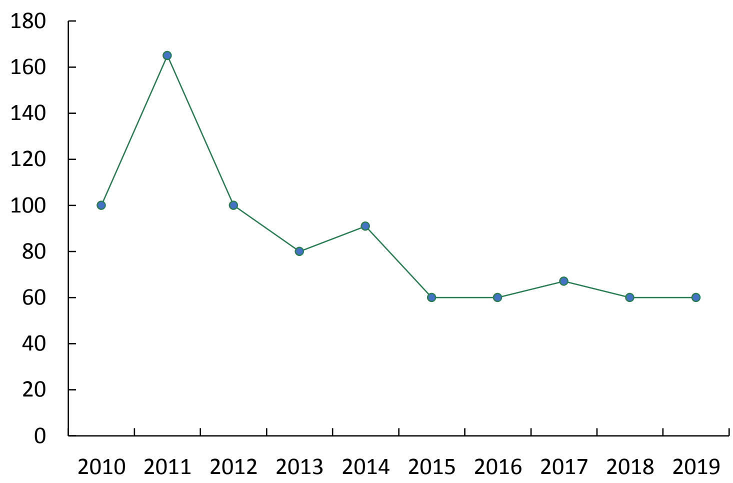


Chart 4: Domestic Wheat Production (USD 'bn)



Source: USDA, Meristem Research

Devaluation Risks

Given the dependence of industry players on imports, the sector is significantly exposed to FX shocks. The CBN technically adjusted the official rate across the FX windows in March 2020, to reflect current market realities. The Interbank rate was adjusted to NGN360/USD, while the I&E FX rate was adjusted to NGN380/USD. The devaluation of the Naira translates into higher import costs, exacerbated by the difficulty in passing these costs to consumers. Companies with foreign currency denominated loans such as **NESTLE and INTBREW** are likely to record higher finance costs, thus dampening their earnings performance for 2020FY.

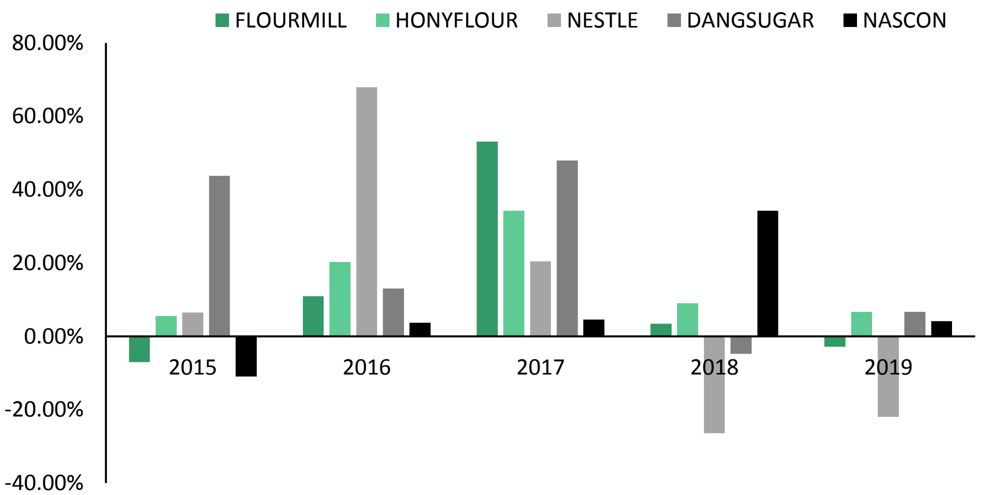
Sector Outlook

Over the past few months, there has been a shift in consumption patterns, a rise in technology adoption, increased disruptions in supply-chains amid other rapid changes. The Coronavirus outbreak has contributed in shaping consumers' spending and consumption pattern across sub-sectors. While the Post-COVID period is uncertain, a few trends are anticipated.

The digitalization across sectors on the back of social distancing measures, unorthodox Government policies to restrict foreign exchange, and shift in consumer trends are about to re-shape the consumer-packaged goods industry. With the cases of rare diseases on the rise, there is an expectation that consumer become more conscientious about health and wellness. This is expected to trigger a growth in the market for quality (although, relatively expensive) food products, especially amongst the middle class.

Across the world, the consumer goods industry is largely defensive in nature even during economic recessions. Taking cues from the 2016 recession, four of the firms under our coverage reported double digits top-line growths: **NASCON** (13.06%). **FLOURMILL** (10.96%), **NESTLE** (20.25%), **DANGSUGAR** (67.95%)and **HONYFLOUR** (3.72%). As it can be inferred from the chart below, none of the firms recorded a decline in sales and growth was sustained in 2017- the recovery phase. Amidst the economic slowdown, job losses and pay cuts, we still anticipate a healthy topline for these firms.

Chart 5: FMCG Companies' Top-line growth



Source: Company's Financials, Meristem Research

A survey conducted during the course of writing this report revealed that majority of respondents (81%), would immediately switch to substitutes if familiar brands increase prices of their products. Premised on this, we expect improved volumes (*not price-hike*) to drive turnover growth for these firms.

Elsewhere, the continued closure of the land borders has moderated the activities of smugglers, however, in the event that the first phase of AfCFTA kicks off as planned by July 2020, there is likely to be renewed levels of competition within the industry, due to the influx of similar products from other African markets.

It goes without saying that the decrepit state of infrastructure, intense competition from industry players, and poor road networks are challenges that still plagues the industry. The congestion at the Apapa seaport has gotten worse even with the partial lockdown in activities, as directives rolled out by task forces restricts the movement of trucks evacuating cargo to only certain times during the day, further worsening the woes of stakeholders. Against this backdrop, we expect heightened logistics costs especially for food manufacturers who depend on the importation of raw materials for production. However, we expect this to spark renewed backward integration strategies, backed by support by the CBN.

For the brewers, we are not optimistic about performances as we anticipate headwinds in addition to pre-existing challenges (weaker sales, intense competition, excise duties) in the industry to constrain growth. The outbreak of COVID-19 which has led to restriction of movements, is expected to negatively impact demand for alcoholic beverages. We opine that it will be pertinent for industry players to devise strategies to optimise business operations especially surrounding the supply of their products. Leveraging on e-commerce to get their products to the end users while eradicating bottlenecks along the supply chain will be beneficial to sustaining business operations.

COMPANY ANALYSES

In estimating the intrinsic value of **the companies under our coverage,** we employed a blend of valuation methodologies:

- **Dividend Discount;**
- **Residual Income;**
- **Free Cashflow Models**.

Considering that the projected cash flows are expected at various time horizons and have different risk perceptions, we employed the average yield-to-maturity on default (risk) free 10-year federal government bonds.

Each company's beta was estimated by regressing the equity returns to the NSEASI returns. The beta was subsequently adjusted using the Blume's approach, to reflect its movement towards the market beta of one (1) over the covered period.

In estimating the Cost of Equity, we employed the Capital Asset Pricing Model (CAPM).

Nestle Nigeria Plc.

Nestle Nigeria Plc. (**NESTLE**), a subsidiary of **NESTLE S.A**, is one of the largest foods & beverage manufacturing companies in Africa. **NESTLE** currently operates three (3) manufacturing sites in Nigeria, and exports some of its products to other neighboring African countries – Niger, Togo, Ghana, Burkina Faso, and so on. The company is primarily involved in the manufacturing, marketing and distribution of food products, including purified water. NESTLE Nigeria Plc. operates its business under the Food and beverage segments which includes – Nutrition formula, Infant cereals, Family cereals, Confectionery, and Table Water. Its rich product portfolio consists of iconic brands like Maggi, Cerelac, Golden Morn in the food category and Milo, Choco Milo, Nescafe and Nestle Pure Life in the beverage category.

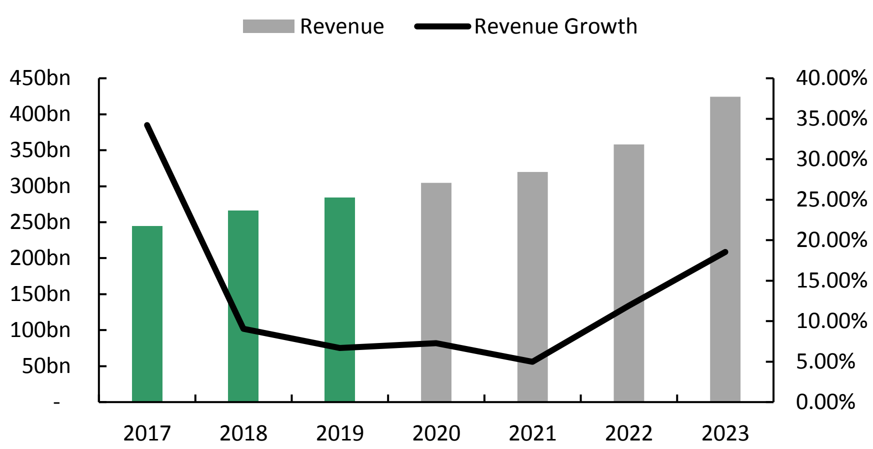
NESTLE has remained the most profitable consumer goods company in Nigeria over time, leveraging its market leadership position in the country's teeming market – one whose population is projected to reach 300 million by the year 2030. The company's industry leadership and brand popularity constitute a formidable source of competitive advantage in the tightly contested race to capture market share. Recently, the company's management has taken to expansionary projects - such as its launch of its second beverage production plant in Ogun State in 2018, as it seeks to grow its revenue by enhancing sales volume.

Financial Performance

Essentiality and Brand Loyalty Drive Top-line Performance

Despite the prevailing macroeconomic headwinds and mounting pressure on consumer spending, **NESTLE**'s 2019FY revenue climbed 6.67% YoY to NGN284.04bn (vs. NGN266.27bn in the previous year). Over a 5-year period, topline growth has been impressive, registering a double-digit CAGR of 13.43% between 2015FY – 2019FY. This growth is largely supported by the essential nature of the company's products and expansion in sales volume; as the company benefited from Management's decision to rotate into more favorable price-volume mix products.

Chart 1: Revenue Trajectory and Projection



***Source**: Company's Financials, Meristem Research*

Other sources of competitive advantage are the company's effective route-to-market network that ensures availability of its products across the length and breadth of the country and brand loyalty from customers especially in the beverage segment, where the *Milo* brand is dominant. In 2019FY, the company generated 98.25% of its revenue from sales in Nigeria, while the remaining 1.75% was from export sales to other neighboring countries.

The improvement in topline has also been accompanied by an expansion in production costs – [5-year CAGR: 13.18%]. Although the company has increasingly focused on sourcing its production inputs locally – achieving remarkable success with maize and sorghum which it employs in the production of its *Golden Morn and Cerelac* brands, it still spends on raw material imports. As a result, cost of sales has hovered around 54.88% and 58.69% between 2015FY – 2019FY, with a 5-year average of 56.97%.

Operating expenses have also trended upwards, from NGN33.60bn in 2015FY to NGN56.08bn in 2019FY on the back of increased spending on marketing and promotion (5-year CAGR: 12.21%) as well as administrative expenses (5-year CAGR: 5.40%) as the company seeks to maintain top-of-the-mind awareness among its customers and weather the keen competition for market share in the consumer goods space. **NESTLE** has also benefitted from its grip on finance costs which has continued to trend downwards in recent times (5-year CAGR: -14.18%). In 2015FY, the company spent NGN4.87bn on finance costs. This rose to NGN20.86bn the following year, before falling to NGN15.11bn in 2017FY. In 2018FY and 2019FY, finance costs settled at NGN2.61bn and NGN2.27bn respectively.

NESTLE Continues to Return Significant Value to Shareholders

For **NESTLE**, both PBT and PAT have expanded steadily since 2015FY, from NGN29.32bn and NGN23.74bn (in 2015FY) to NGN71.12bn and NGN45.68bn (in 2019FY). This implies a 5-year CAGR of 19.39% and 13.99% respectively. In 2019FY, PAT was up by 6.22% YoY from the corresponding period in 2018FY due to the pass-through effect of enhanced sales (+6.67% YoY) and slower growth in production costs (+2.32% YoY) during the period.

NESTLE continues to generate significant value for its shareholders, as the company's return on equity (ROE) has maintained an upward trend (from 62.45% in 2015FY to 100.28% in 2019FY). The expansion in ROE is fueled by a steady climb in both net margin and asset turnover - from 15.69% and 1.27x in 2015FY to 16.08% and 1.47x in 2019FY. Financial leverage has followed the same trended, after falling from its highpoint of 5.49x in 2016FY, to 3.27x in 2017FY. As at 2019FY, financial leverage stood at 4.24x, up from 3.23x in the corresponding period (bringing the 5-year average financial leverage ratio to 3.88x).

Increase Short-term Debts Pressure Liquidity Ratios

Total interest-bearing debts for 2019FY pegged at NGN13.21bn, up from NGN8.34bn in 2018FY, while debt to equity ratio pegged higher at 0.29x, compared to 0.17x from the preceding period (vs. 5year average: 0.68x). Both current and quick ratios declined slightly from 0.90x and 0.63x in 2018FY to 0.85x and 0.58x in 2019FY driven by an increase in trade payables and short-term borrowings. The company's cash position also slumped by 55.73% to NGN6.98bn (vs. NGN15.76bn in the corresponding period). As with the previous period, the company's net working capital has remained negative, worsening by 97.14% YoY to - NGN18.50bn (as at 2019FY) driven largely by a 36.28% increase in current liabilities to NGN125.54bn as against a 29.37% climb in current assets to NGN107.04bn.

NESTLE recently released its Q1:2020 financial scorecard reporting a muted performance with revenue declining by 0.90% YoY – the first topline drop since Q1:2015. Looking ahead, however, we maintain our positive outlook for sales in 2020FY. This is buoyed by our expectation of increased demand channels, stockpiling and a shift in consumption pattern to essential goods as most households grapple with the effects of COVID-19. In addition, the access to FX in the official window for the importation of milk and allied products is expected to provide succor to costs in the coming period. Against this backdrop, we have projected a 7.28% growth in topline to NGN304.71 by 2020FY. We however identify risks to production and finance costs - stemming from unfavorable movement in foreign exchange) and rise in operating expenses (mainly distribution and promotion costs) as downside risks to our outlook.

Valuation and Recommendation

Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	0.97
Cost of Equity	19.37%
Sustainable Growth Rate *Haircut	10%
Techniques & Weightings	
Dividend Discount Model	20%
Residual Income Model	30%
Free Cashflow Model	50%
Equity Value Per Share	**NGN1,153.48**
2020FY Expected EPS	60.00
2020FY Target P/E	20.00x
2020FY Target Price	**NGN1,200**

Nascon Allied Industries Plc.

NASCON Allied Industries (**NASCON**), a member of the indigenous conglomerate - Dangote Industries Limited, is one of the major players in the food and agriculture sector in Nigeria.

NASCON, upon establishment was solely involved in refining of salt. However, over the years, the company has grown its business operations to include manufacturing, refining, marketing and distribution of salt, seasoning, tomato paste and vegetable oil products with operating production facilities in Lagos, Ogun, and Rivers states. The expansion of its business interests necessitated the change of name in 2014 from National Salt Company of Nigeria to NASCON Allied Industries Plc. The company's seasoning and spice products enjoy significant patronage in Northern Nigeria, where it leverages on its knowledge of local consumer tastes, distribution network and loyalty to the Dangote brand name. **NASCON**'s seasoning products also competes in the saturated market with big brands such as **UNILEVER**'s *Knorr* and **NESTLE**'s *Maggi.*

NASCON's growth strategy is hinged on capacity expansion and market penetration (by offering price discounts). **NASCON**'s strategic focus on sustainable expansion via capacity growth and increased market penetration saw it enhance its total installed capacity for salt production to 567,000Mtpa – (275,000Mtpa in Apapa, 210,000Mtpa in Rivers and 82,000Mtpa in Oregun) and release new products into the market in 2018. The company launched the Dangote Stew Mix, Dangote Curry and Dangote Classic Seasoning product portfolio, expanding its product portfolio and leveraging on its market dominance to drive sales.

The company, like many others located in the Apapa region faces the logistic hiccup at the Apapa port. In dealing with this, **NASCON** has moved about 60% of its production from its Apapa plant to the Oregun and Port Harcourt plants, while also engaging third-party transporters to ensure timely delivery of its finished goods. Despite the gridlock situation, the location near the ports (in Lagos – Apapa, and Port Harcourt) provide strategic advantages and is the reason the company has not adopted a regional approach in the location of its plants, despite the Northern market accounting for the bulk (c. 70%) of its salt sales volume.

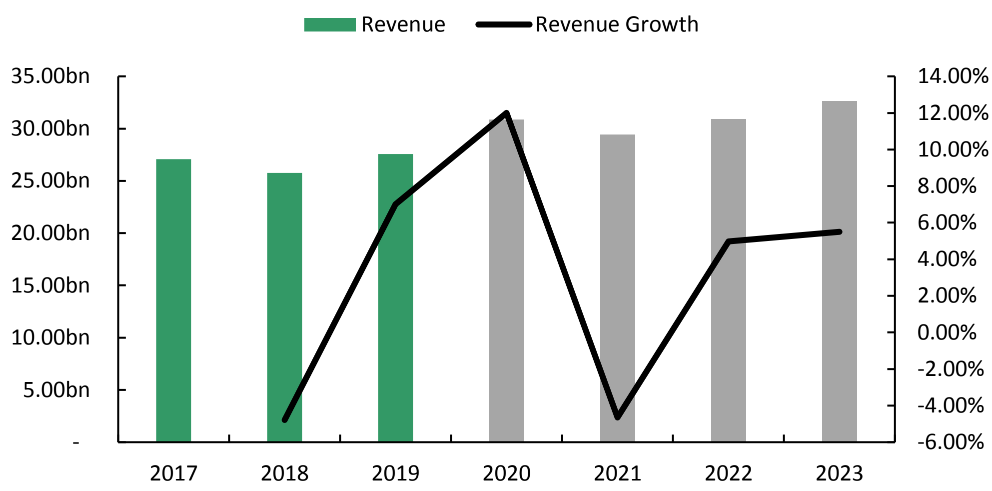
Financial Performance

Top line Remains Solid Amidst Competition

NASCON's topline growth has been impressive, with an annual growth rate of c.11.18% in the last 5 years. This was driven mainly by its salt and seasoning business. 2019 has been the best financial year since 2015, as the company recorded a 6.67% Y-o-Y growth in revenue to NGN27.49bn – a new highpoint in its history. Although the company's production costs has also climbed significantly, from NGN11.82bn in 2015FY, to NGN21.65bn in 2019FY (an implied 5-year CAGR of 12.87%), **NASCON** has stayed on the path of profitability, ending every financial year in a profit position. In 2019FY however, the company recorded a 58.25% slump in PAT to NGN1.85bn (from NGN4.42bn in 2018FY) as cost pressures wiped off the improvement in revenue. It is noteworthy to mention the growth in the company's finance costs to NGN222.81mn (from nil in 2018FY) following the NGN3.30bn long-term borrowing to fund capacity expansion projects undertaken during the year.

Its recently released Q1:2020 financial scorecard however shows a marginal uptick in revenue (+0.83%) to NGN6.88bn (vs. NGN6.82bn in Q1:2019). This performance was solely propelled by a 19.99% growth in revenue from salt and seasoning products to NGN6.88bn, amidst the mounting competition in the seasonings market. We anticipate an improvement in sales volume by the end of the financial year, on the back of the *COVID-19* necessitated lockdowns and increased spending on food items by households, social organizations and the Government. We project a 12.00% growth in topline by 2020FY, to be fuelled by an increase in volumes in the second and third quarters. However, weak disposable income, and a reopening of the land borders without addressing smuggling and dumping activities pose significant downside risks to this projection.

Chart 1: Revenue Trajectory and Projection



Source: Company's filings, Meristem Research

Increased Debt Obligations Fuel 2019FY ROE Growth

Over time, the company has created significant value for its shareholders, recording strong double-digit ROE – (29.71% in 2015FY, 30.02% in 2016FY, 46.32% in 2017FY, 37.17% in 2018FY and 16.64% in 2019FY), higher than its cost of equity of 19.83% and upholding a consistent dividend paying culture. The trend in ROE has however reverted since 2018. The decline has been fuelled by deterioration of both net margin and asset turnover from 19.74% and 0.90x respectively in 2017FY to 6.71% and 0.71x in 2019FY. Financial leverage has however trended upwards, from 2.30x in 2015FY to 3.49x in 2019FY). The jump in financial leverage from 2.55x in 2018FY to 3.49x in 2019FY is on the back of the company taking up more debt obligations to fund its capacity expansion drive.

At the end of 2019FY, interest-bearing debts settled at NGN7.06bn (vs. NGN38.57mn) driven by an expansion in both borrowings and lease liabilities. Both current and quick ratios however deteriorated (particularly driven by an increase in trade payables by 29.18%), from 1.18x and 0.94x (in 2015FY) to 1.06x and 0.82x (in 2019FY). This indicates a contraction in **NASCON**'s ability to meet its short-term obligations. Although its cash position improved to NGN3.66bn from NGN2.59bn in 2018FY, the company's working capital worsened by 55.10% to NGN1.11bn as the rise in current liabilities (+16.49% Y-o-Y) outpaced that of current assets (+6.94% Y-o-Y).

Looking ahead, we identify the stricter border policy that has stemmed smuggling and dumping activities of unbranded products (especially in the Northern market which constitutes the bulk of the company's sales), increase in demand channels for food and seasoning products amid the coronavirus pandemic and headroom to improve capacity utilization as positives for **NASCON**.

Valuation and Recommendation

Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	1.03
Cost of Equity	19.83%
Sustainable Growth Rate *Haircut	6.5%
Techniques & Weightings	
Dividend Discount Model	50%
Free Cashflow to Equity Model	50%
Equity Value Per Share	**NGN17.45**
2020FY Expected EPS	1.36
2020FY Target P/E	10.0x
2020FY Target Price	**13.60**

Flour Mills of Nigeria Plc.

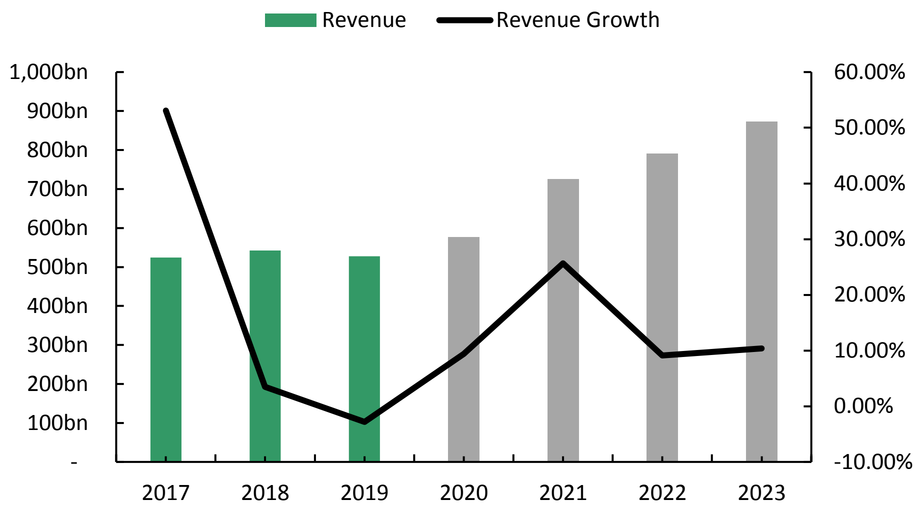
FLOURMILL is the largest food and agro-allied company listed on the Nigerian bourse. Its business cuts across four subsidiaries: Food, Sugar, Agro-Allied and Support Services. As the pioneer flour milling company in the country, **FLOURMILL** has a significant hold on market share (c.20%) and its production capacity of c.8000Mtpd is the second largest (*after OLAM International Limited)*. The firm boasts of a rich portfolio of products including; Noodles, Pasta, Semovita, Masavita, Refined sugar, Margarine, Vegetable oils, and a range of breakfast cereals. Its flagship foods brand, *Golden Penny* enjoys popularity and patronage in many Nigerian households.

In 2019, the firm completed the restructuring of its Agro-allied division, making it a stand-alone subsidiary- ***Agro-Allied Holdco***. This was carried out to improve the efficiency of the division and to ensure focus on core competencies across the group. In addition, the subsidiary is better positioned to access funds that are best suited for its business operations, especially the agricultural sector intervention funds provided by the Federal Government.
The firm also announced its 100% acquisition of Sunti Golden Sugar Estates Limited (17,000 farm hectares and 4,500MT/d of sugar milling capacity). This is in alignment with the Government's backward integration drive.

Agro-Allied Division Champions Top-line Growth

FLOURMILL has consistently reported solid financial performance over the years, with a five year Compounded Annual Growth Rate of 15.81%. In its most recent financials, the firm reported a 16.66% growth in top-line to NGN152.72bn in Q3:2020 alone (*financial year end is September*). The improvement in revenue was bolstered by growth across the main business subsidiaries. The food business (*which typically contributes 62% to overall revenue*) particularly benefited from the closure of the land borders as patronage increased in the Pasta business segment, resulting in a 9% volume growth during the period. The firm also recorded impressive performances in the Sugar and Agro-allied divisions, both of which grew volumes by 9% and 6% respectively. During the nine-month period, the agro allied division recorded the highest growth of 19.56% in revenue, closely followed by the sugar division (+13.42%) and Food (+2.95%). Revenue from the support service division plummeted significantly by 32.43%.

Chart 1: Revenue Trajectory and Projection



Source: Company's Financials, Meristem Research

Management also alluded to the launch of additional products and improvement in Business to Customer transactions as revenue drivers during the period. **Our outlook for 2020FY revenue is quite positive; we expect a surge in volumes driven by improved aggregate spending on basic food items across the country. Against this backdrop, we expect a growth of 21% in Q4:2020 revenue to NGN153.83bn, resulting in an overall revenue growth of 9.38% (NGN576.86bn) for the 2020 financial year.**

Cost Remains a Bottleneck

Direct costs has been trending upwards, rising by 13.22% to NGN136.66bn in Q3:2020. Consequently, cost to sales inched higher slightly, pegging at 89.49%, from 88.75%. **We expect pressures on direct costs in the near term on the back of increased logistics costs. The continued congestion at the seaport and bad road networks will not aid performance, with the consequent increase in logistics costs.** However, the odds are stacked against costs. **FLOURMILL** is overly dependent on imports of its key raw material- wheat, making its significantly exposed to the volatilities in the foreign exchange. In the event that the Central Bank extends its foreign exchange restriction to wheat imports, **FLOURMILL** will be negatively impacted, resulting in a surge in its direct costs (north of 88%).

The firm successfully raised NGN30bn from its NGN70bn Bond Programme in February 2020, the proceeds of which were channelled into restructuring its interest-bearing liabilities. The firm improved its funding mix to a cheaper source of capital, paying down short-dated expensive capital to NGN62.57bn, from NGN71.05bn and expanding long term obligations to NGN59.95bn (vs. NGN46.23bn in 9M:2019). As a result, finance costs declined by 19.58% in Q3:2020 to NGN4.28bn, from NGN5.32bn in Q3:2019. Debt to Equity ratio also improved to 0.74x from 0.84% in the corresponding period. Interest cover inched upwards slightly to 1.84x from 1.65x in 9M:2019.

The moderation in finance costs boosted earnings, which rose by 3.59% to NGN8.160bn (vs. NGN7.88bn in 9M:2019). Return on Equity remained flattish at 5.37% (vs. 5.22% in 9M:2019). This was mainly due to lower asset use efficiency during the period and the decline in leverage with asset turnover and financial leverage at 0.96x and 2.63x, down from 1.04x and 2.73 respectively.

Within the nine-month forecast period (April – December), we anticipate a moderation in earnings by 3.94% to NGN7.84bn (vs. NGN8.16bn in 9M:2020) prompted by the anticipated pressure on costs.

Valuation and Recommendation

Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	0.79
Cost of Equity	17.83%
Sustainable Growth Rate *Haircut	6.85%
Techniques & Weightings	
Dividend Discount Model	40%
Free Cashflow to Equity Model	60%
Equity Value Per Share	**NGN46.15**
2020FY Expected EPS	NGN2.62
2020FY Target P/E	8.5x
2020FY Target Price	**NGN22.27**

Honeywell Flour Mills PLC.

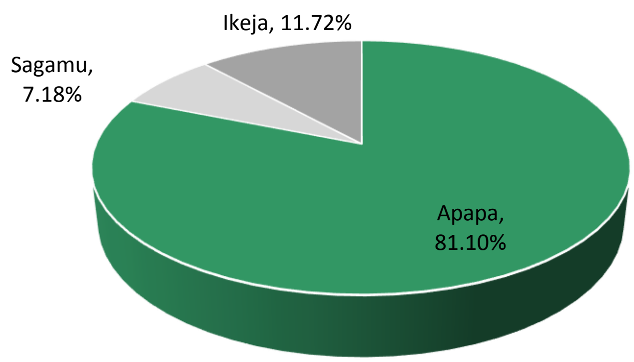
Honey well Flour Mills (**HONYFLOUR**) is a member of the Honeywell Group, an indigenous conglomerate with businesses interests in the Foods & Agro-Allied, Energy, Real Estate, Services, and Infrastructure sectors of the economy. The company was incorporated as Gateway Honeywell Flour Mills Limited in 1985. A change in ownership necessitated the change of name to Honeywell Flour Mills Limited ("**HONYFLOUR**").

HONYFLOUR manufactures and markets wheat-based products including flour, semolina, wheat meal, brown flour, pasta and noodles. **HONYFLOUR**'s product portfolio includes; Honeywell Superfine Flour, Honeywell Wheat Meal, Honeywell Semolina, Honeywell Noodles, Honeywell Pasta, Honeywell Composite flour, Honeywell Brown Flour, Honeywell spaghetti and Honeywell Macaroni.

Following the completion of its ultra-modern pasta factory in Sagamu, the flour miller now operates out of three production facilities; the Apapa, Ikeja, and the Sagamu factories. The company has its head office located in the Tin Can Island Port Industrial Estate, a strategic location that allows for cost efficient receipt of its imported raw materials. By revenue, **HONYFLOUR** is the second largest listed flour miller on the Exchange (with revenue of NGN74.41bn in 2019FY). By total installed capacity, the flour miller's 3750Mtpd capacity ranks third, behind Olam International and Flour Mills of Nigeria (with 11,140Mtpd and 8000Mtpd respectively).

The firm announced the completion of its production restructuring arrangement in Q1:2020, transferring pasta production to the new factory in Sagamu. Consequently, revenue from the Ikeja plant declined by 39.31% to NGN1.82bn in Q1:2020, while the Sagamu factory generated NGN2.16bn in the same period. While we acknowledge that the new production arrangement might imply further revenue decline in the Ikeja factory, we expect improved capacity utilization of the Apapa and Sagamu factories (*which contribute 81.10% and 7.18% to revenue respectively*) to drive revenue growth.

Chart 1: Factory Contribution to Revenue

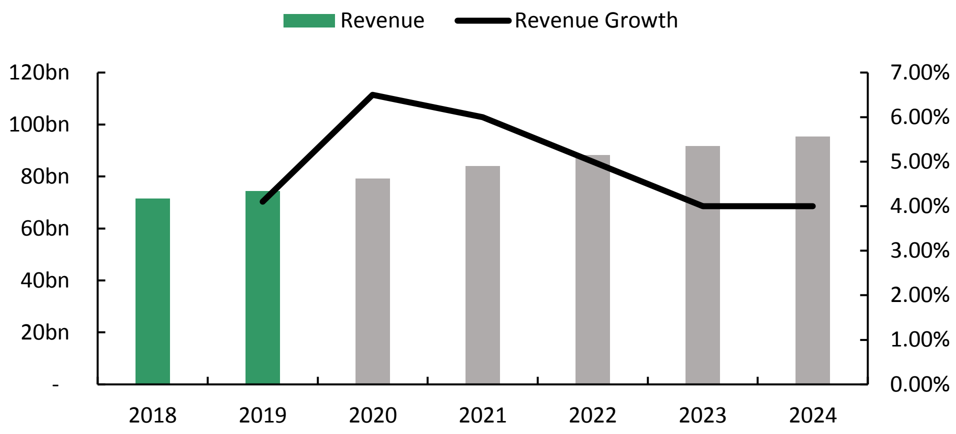


***Source**: Company's Financials, Meristem Research*

Muted Top-line Movement

Over the years, **HONYFLOUR** has managed to maintain decent topline growth, registering a 5-year CAGR of 8.69% between 2015 and 2019. The company's 2019FY topline performance represents a new highpoint in its history, as revenue reached NGN74.41bn -a 4.10% improvement from the NGN71.48bn recorded in the preceding year. This was supported largely by enhanced sales volume; a direct consequence of the new Sagamu factory, which became operational in Q1:2020 and was further strengthened by management's decision to restructure production arrangement (transferring pasta production from the Ikeja plant to the Sagamu factory). As at 9M:2020 (*financial year end is March*), the firm's topline had touched NGN58.23bn, representing a 5.73% Y-o-Y advance from the NGN55.08bn recorded in the corresponding period. Our forecast for 2020FY puts revenue at NGN79.25bn (a growth of 6.50% Y-o-Y).

Chart 2: Revenue Trajectory and Projection



***Source**: Company's Financials, Meristem Research*

The company's production costs has also climbed in tandem with revenue, at a 5-year CAGR of 8.64%. Production costs peaked at NGN62.90bn in 2019FY, upheld by a 14.95% and 10.49% surge in expenses on raw and packaging materials as well as in plant maintenance and power costs during the period. Like fellow industry players, the company's reliance on imports for its production inputs adds another layer of pressure to costs as the flour miller is significantly exposed to fluctuation in global wheat prices. Indeed, this has kept cost to sales ratio for the industry elevated. For **HONYFLOUR**, cost to sales has hovered between 76.12% (its nadir) and 91.43% (its zenith) in the last five (5) years. In 2019FY, gross margin settled at 15.47% -significantly lower than 22.46% observed in 2018FY and the 5-year average of 17.14%).

Rise in OPEX Pressure Margins

In the same vein, operating expenses has been rising steadily, from NGN5.55bn in 2015 to NGN8.34bn in 2019. This is occurring even as the company continues to grapple with the lingering logistic challenges at the seaports. The impact of the poor road network is felt both at the sourcing and distribution segments, restricting the flour miller's ability to move raw materials to production plants, as well as supply finished goods to customers.

For 2019FY, operating profit came in at NGN3.92bn, down from NGN9.48bn in 2018FY. PBT also fell sharply to NGN0.61bn (vs. NGN4.87bn in the corresponding period) dragged by the NGN3.31bn incurred as finance costs during the period. We however note the 28.15% Y-o-Y slump in finance costs following management's efforts to restructure the balance sheets by replacing expensive loans with financing from development banks at concessionary interest rates. After tax payments of 0.54bn, PAT settled at 68.37mn – its lowest level since 2016FY when the company ended the financial year in a loss position. Accordingly, net margin crashed to 0.09% (vs. 6.19% in the previous year and 5-year average of 2.14%).

Over time, the company's return on equity (ROE) has continued to wane, fuelled by a steady deterioration in net margin and asset turnover, both of which went from 2.28% and 0.72x in 2015FY to 0.09%, and 0.54x in 2019FY. Accordingly, ROE for 2019FY settled at 0.12% - a significant dip from 7.85% in the previous year and 8.23% highpoint in 2017FY). Financial leverage has also trended downwards, from 3.34x in 2015FY to 2.43x in 2019FY). Average financial leverage for the period 2015-2019 pegged at 2.96x.

Debt Repayment Improves Balance Sheet Position

The company's total interest-bearing debts for 2019FY stood at NGN55.24bn (FLOURMILL: NGN126.94bn), while its debt to equity ratio was 0.97x (vs. 5year average: 1.60x, FLOURMILL: 0.84x). Both current and quick ratios have improved, although marginally from 0.58x and 0.19x (in 2015FY) to 0.73x and 0.40x (in 2019FY). However, the company's net working capital has remained negative, worsening by 73.66% Y-o-Y to - NGN11.46bn (as at 2019FY) driven largely by a 39.20% and 65.79% jump in current liabilities and trade and other payables respectively.

Looking ahead, we identify the lingering border closure, burgeoning demand for flour and flour-based products and headroom to improve capacity utilization as positives for **HONYFLOUR**.

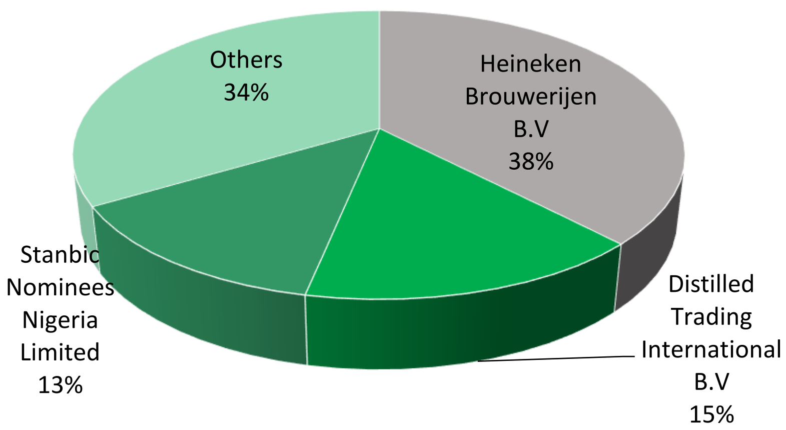
Valuation and Recommendation

Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	0.33
Cost of Equity	14.10%
Sustainable Growth Rate *Haircut	6.88%
Techniques & Weightings	
Dividend Discount Model	60%
Free Cashflow to Equity Model	40%
Equity Value Per Share	**NGN2.05**
2020FY Expected EPS	NGN0.38
2020FY Target P/E	2.50x
2020FY Target Price	**NGN0.95**

Nigerian Breweries Plc.

Nigerian Breweries Plc. (**NB**), a subsidiary of the Heineken Group of the Netherlands, is the pioneer company in the domestic brewery industry. The firm has grown both organically and through consolidations, to sustain its position as the largest brewer in Nigeria. The principal activities of the company are brewing, packaging and marketing of beer, alcoholic flavoured/non-alcoholic beverage. The Heineken Group of the Netherlands, through its subsidiaries (Heineken Brouwerijen B.V. and Distilled Trading International B.V), holds majority interest of 54% in the company.

Chart 1: Shareholding Structure



Source*: Company Filings, Meristem Research*

Heineken's strategy of winning in the marketplace, long term sustainability and delivering growth and shareholder value, is built around four business priorities for action which are; *Deliver top line growth, Engage and develop its people, Drive end to end performance, and Brew a better world.*

NB has a broad product portfolio where the set goal is to expand its leadership in Premium lager, build scale in mainstream segment and drive malt growth. The company has nine (9) fully operational breweries and two (2) malting plants, and its products include Heineken, Star, Gulder, Tiger, Legend, Maltina, and so on. Lager constitutes the bulk of NB's products category, and the firm has no intention of delving into the spirits market for now (unlike its rival, GUINNESS) as its focus remains the beer market.

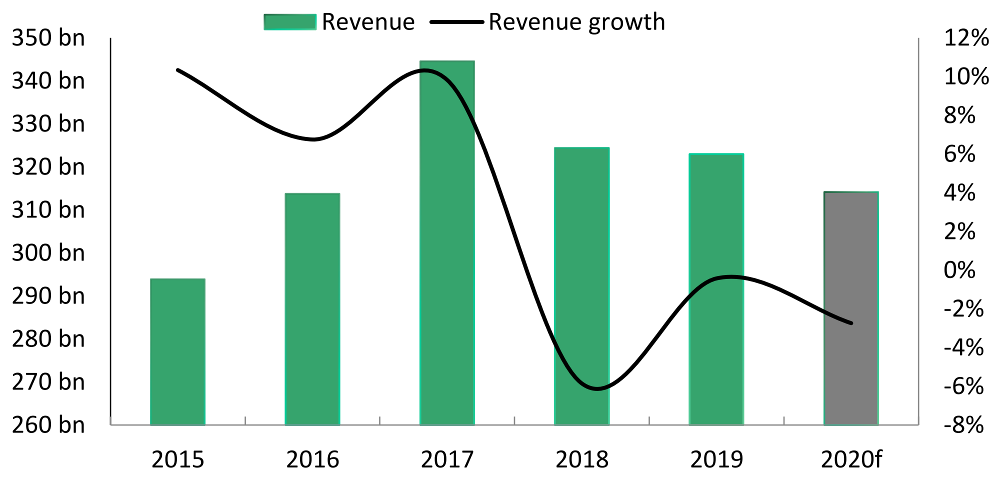
NB has sales offices and depots spread across the country and this is complemented by an extensive network of key distributors, wholesalers, bulk breakers and retail stores situated across the country. In November 2018, NB incorporated 234 Stores Limited; a subsidiary created to explore Route-to-market (RTM) opportunities. The firm has since invested NGN100mn in the subsidiary, and it was run during the year as a pilot scheme. This initiative aims to enhance the firm's distribution channels while optimizing costs, given its exclusivity and the elimination of middlemen.

Financial Performance

Revenue Pressured as Headwinds Persists

NB's revenue growth has been tepid, expanding at a compounded annual growth rate (CAGR) of 1.91% between 2015-2019. Topline performance has remained pressured by weaker sales and increased excise duties on alcoholic beverages, resulting in a decline in revenue for the last two years. At the tail end of 2019, the firm reviewed prices upwards, in order to alleviate some of the cost pressures. So far, this has boded well for the firm although, not sufficient enough to upturn the declines in topline performance. In Q1:2020, the most recent result, revenue was NGN83.20bn, a marginal decline (-0.09%) from the corresponding year's NGN83.28bn. **We opine that risks remain tilted to the downside as the restriction of social gatherings to curb the spread of COVID-19, continues to dampen the demand for alcoholic beverages. This, coupled with the existing industry headwinds (intense competition amongst players, weakened discretionary income and increased excise duties) informs our downbeat prognosis of sales performance this year**. Therefore, we project a 2020FY revenue of NGN314.47bn, which represents a decline of 2.64% from the corresponding period in 2019.

Chart 2: NB's Revenue and Revenue Growth



Source: Company's Financials, Meristem Research

Cost to Sales Ticks Higher

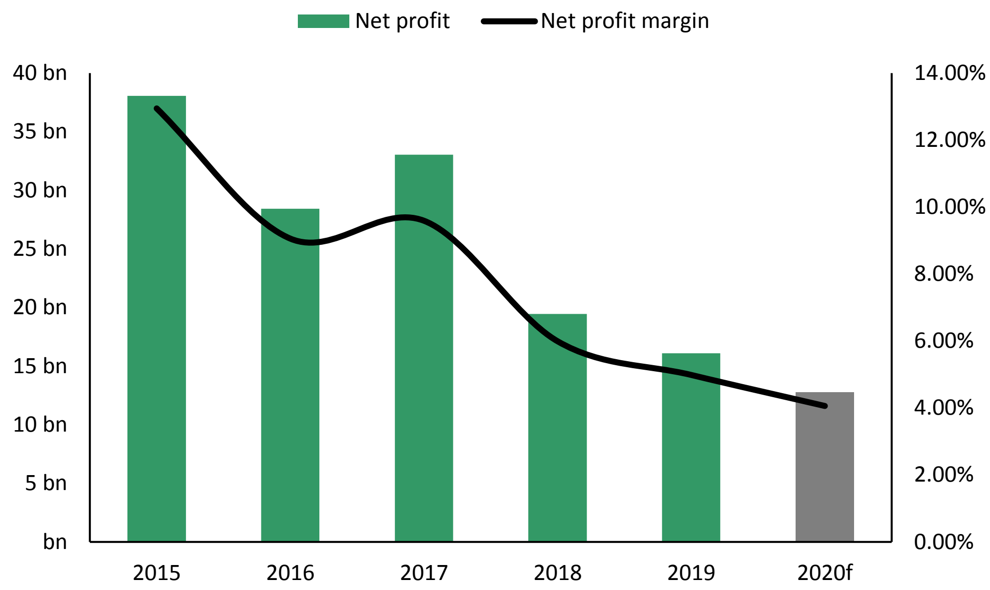
NB is at the forefront in respect to cost leadership, recording an average cost to sales of 57.27% in the past five years - compared to industry average of 61.01% over the same period. Increases in the cost of raw materials has however pushed cost of sales upward in recent quarters. In Q1:2020, cost of sales rose to NGN48.34bn (a 0.23% increase from Q1:2019) despite the decline in revenue. 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).

In the near-midterm, we expect cost to sales to hover between the 58%-60%; the company now sources 57% of its raw materials locally, close to the 60% being targeted by FY2020. We expect this to ease the cost of importation.

Thinning Margins, Weak Earnings

Operating expenses have been elevated as NB intensifies sales and distribution as well as advertising efforts to stay ahead of competition. Hence, Operating margin pegged at 10.59% in 2019FY, below its 5-year historical average of 15.06%. Similarly, OPEX jumped by 14.10% to NGN24.14bn in Q1:2020 while finance costs also went up by 1.46% to NGN2.65bn. The trickle-down effect of declining revenue and mounting cost pressures caused net profit to decline by 17.14% in 2019FY, pegging net margin at 4.99% (the lowest it has reached in a decade). This trend shows no sign of easing; as at Q1:2020, PAT was down by 31.40%, to NGN5.51bn. Based on our expectation of a decline in revenue, we expect this to trickle down and lower PAT by 20.58% to NGN12.79bn by 2020FY, from NGN16.11bn in 2019FY.

Chart 3: NB's **Net Profit and Net Profit Margin**

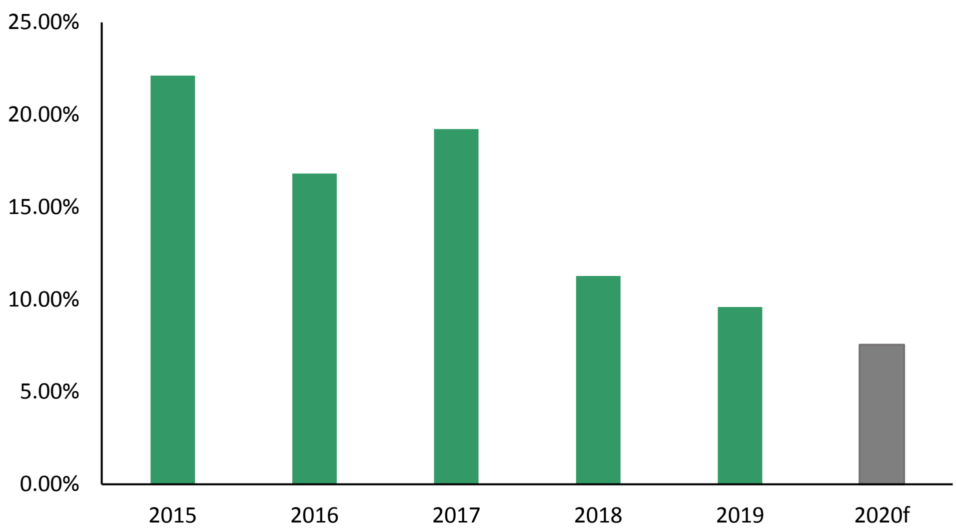


Source: Company's filings, Meristem Research

Return on Equity dragged by Declining Net Profit Margin

Over the last several years, NB's ROE has deteriorated significantly from a high of 60.45% in 2010FY to 9.60% in 2019FY – much below its Cost of Equity (COE) of 18.49%. This has been mainly due to the declining net profit margin, while other drivers of profitability have remained tepid (assets turnover averaged 0.85x over the last five years while financial leverage averaged 2.21x). We expect ROE to remain downbeat at 7.64% in 2020FY in line with an expected decline in net profit margin to 4.06%.

Chart 4: Return on Equity (ROE)



Source: Company Filings, meristem research

More debts, but Improved working capital

The firm continues to tap the debt market to resolve its liquidity challenges. NB issued its '5 and 6' as well as '7 and 8' series of its NGN100bn CP programme in the first quarter of the year, worth NGN45bn and NGN30bn respectively. Currently, the firm has interest bearing debt of NGN98.48bn as at Q1:2020, with total debt ratio of 22.82% and debt to equity ratio of 56.82%.

With working capital financing, the firm's payables has moderated; payables turnover improved to 1.77x in 2019 from 1.63x in 2018. Likewise, inventory turnover improved to 5.40x in 2019 from 5.25x in the corresponding period, while receivables turnover pegged at 11.44x from 11.68x in 2018.

Outlook

In this era of hampered growth, efforts to improve margins and overall performance by the top brewer is evident; from utilizing debt financing to improve working capital, to adopting a solar- powered energy to reduce energy costs. Topline has also stayed resilient in recent quarters, attributed to the upward revision in prices last year. Earlier in the year, management guided about plans to rigorously drive down costs through an ongoing transformation and reorganization exercise. So far, this has not gained required traction as overhead costs have remained high. However, should gains from these initiatives begin to materialise, the impact will be felt in respect to easing cost pressures and enhancing margins. Lastly, given the restriction of social gatherings, we expect the firm to leverage more on e-commerce with better integration of its route to market this period.

Valuation and Recommendation

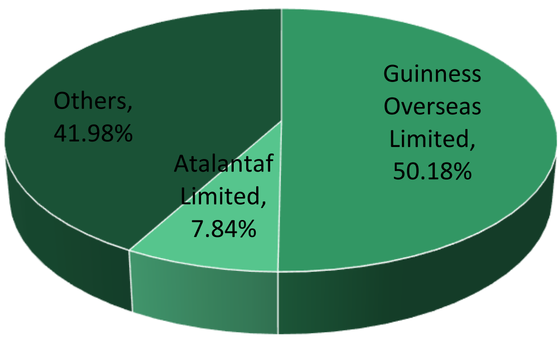
Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	0.87
Cost of Equity	17.59%
Sustainable Growth Rate	0.81%
Techniques & Weightings	
Dividend Discount Model	20%
Free Cashflow to Equity Model	40%
Free Cashflow to the Firm	40%
Equity Value Per Share	**NGN49.02**
2020FY Expected EPS	NGN1.60
2020FY Target P/E	25.00x
2020FY Target Price	**NGN40.00**

Guinness Nigeria Plc.

Guinness Nigeria Plc. was incorporated on 29 April 1950 as a private limited liability company importing Guinness stout from Dublin. In 1963, the company built its first brewery in Ikeja, Lagos State and started production, making it the first Guinness brewery outside the British Isles and the third in the world.

Guinness is a subsidiary of Diageo PLC (one of the top breweries in the world trading in over 180 countries), which holds a 58.02% equity stake in the Company, through Guinness Overseas Limited and Atalantaf Limited, while other investors have 41.98% equity stake.

Chart 1: Shareholding Structure



Source: Company Filings, Meristem Research

Diageo's strategy towards being the best performing, most trusted, and respected company in the world involves supporting premiumisation in developed and emerging countries, with a broad portfolio that can access different consumers across price points. For Guinness Nigeria, its main focus is based on three strategic pillars of productivity, portfolio expansion, as well as execution of commercial footprint initiative.

Guinness offers a broad portfolio of brands in premium, mainstream and value segments. The company is the only brewer in Nigeria with portfolios across all segments of beer, malt and spirits, making it a total beverage brand. Its flagship products include Guinness Foreign S tout, Harp, Orijin, Smirnoff ice, Malta Guinness, and so on. In 2019, the firm launched Guinness Gold, a premium lager, reiterating their commitment to driving product innovation.

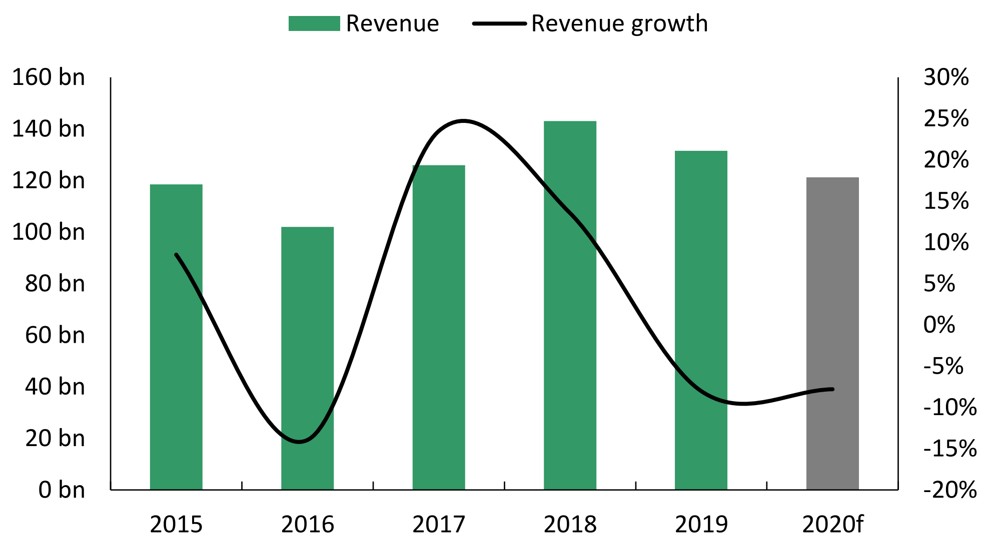
Guinness has over 130 distributors spread across the country, and still plans to invest further in its distribution capabilities by increasing the number of its distributors to deepen its route to market.

Financial Performance

Topline Performance Remains Pressured

Guinness' revenue has expanded at a CAGR of 2.10% between 2015-2019. The major growth drivers are Guinness Foreign Extra Stout, its non-alcoholic brands and more recently, its spirits brands (which now contributes c.17% to revenue). In 9M:2020 (full year ends May), revenue weakened by 5.31% to NGN96.02bn (vs. NGN101.40bn in 9M:2020). 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. **The drop in export sales (which is set to continue), remains a threat to revenue. This is further worsened by the impact of COVID-19, which is expected to impact volumes negatively. Also, prevailing increase in excise duties on alcoholic beverages and the lagging revenue contribution (17% vs. 25%-30% target set in 2019) of the spirits segment should moderate revenue growth further in 2020. Therefore, we project a 7.78% decline in revenue to NGN121.27bn in 2020FY (from NGN131.50bn in 2019FY).**

Chart 2: Guinness' Revenue and Revenue Growth



Source: Company's Financials, Meristem Research

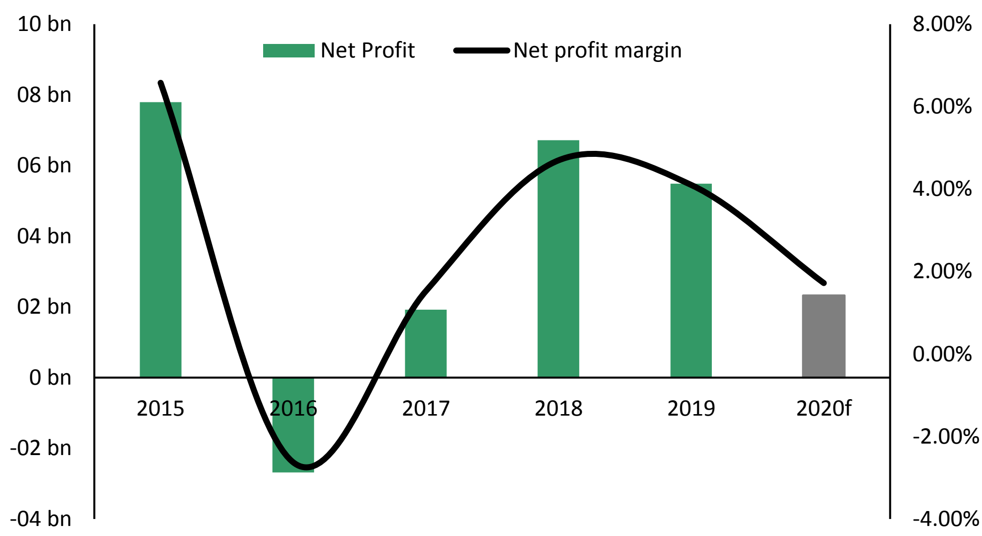
Raw Material Costs Set Cost to Sales Higher

Guinness' cost to sales averaged 61.95% in the last five years, exceeding industry average of 61.01%. Increases in prices of raw materials and consumables have led to a surge in cost of production. Consequently, cost to sales has trended higher, pegging at 67.92% in 9M:2020. **We expect costs to sales to tick higher within the range of 68%-70% due to the anticipated increase in costs of raw materials and finished goods (especially as the firm imports its premium spirits).** Operating expenses on the other hand has moderated for two consecutive years due to management's efforts to drive costs down. However, OPEX expanded by 4.89% YoY in 9M:2020, pegging operating margin at 5.43% compared to 7.23% in the corresponding period. GUINNESS also recorded loss on remeasurement of foreign currency balances - a consequence of the brewer's exposure to dollar-denominated debt, and the adjustment to the prevailing exchange rate.

Weakening Net Margin

Net profit has gone from a high of NGN11.86bn in 2013FY to NGN5.48bn in 2019FY. The impact of declined revenue, increased production costs and accumulated finance costs got the brewer in a loss position in 2016; this prompted the firm to have a Rights issue in 2017, in a bid to deleverage and meet working capital needs. Following the Rights Issue, Guinness showed some level of recovery as net profit climbed to NGN1.92bn in 2017FY and subsequently to NGN6.72bn in 2018FY. However, cost pressures have in recent times, threatened the firm's margins and erased the gains previously achieved. In 9M:2020, net profit slumped by 67.97% to NGN1.36bn, settling net margin at 1.42%, from 4.19% in the previous period. **We forecast 2020FY earnings of NGN2.31bn - a 57.85% decline from NGN5.48bn recorded in 2019FY. This is on the back of our expectation of both a decline in revenue and elevated operating and finance costs.**

Chart 3: **Guinness' Earnings and Net profit margin**

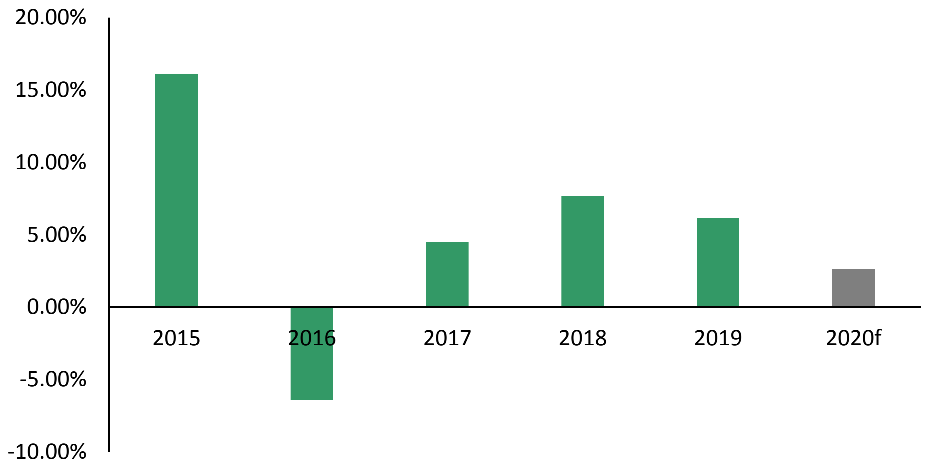


Source : Company Filings, Meristem Research

Meagre Return on Equity (ROE)

The return on equity has declined consistently in recent years, from a high of 16.13% in 2015FY to 6.16% in 2019FY, averaging 6.49% over the period. The major drag to ROE recently has been the declining net margin and increased financial leverage. In 2019FY, ROE declined to 6.16% (vs. 7.67% in 2018FY), dragged by lower assets turnover of 0.82x (vs. 0.93x in 2018FY), declining net margin of 4.17% (vs. 4.70% in 2018FY) and increased financial leverage of 1.81x (vs. 1.75x in 2018FY). In 9M:2020, trailing ROE ticked lower to 2.95%, further reflecting the meagre earnings for the period.

Chart 4: GUINNESS' ROE in the Past 5 years



Source: Company's fillings, Meristem Research

Outlook

The focus of the company as guided by management is to drive the expansion of its spirits brand, build breadth in the upper mainstream and premium lager segments, as well as drive better margins in value lager. The spirits expansion plan although, supported by the firm's consistent product innovation (production of Baileys Delight in Nigeria and introduction of Johnnie White Walker) and its competitive advantage (being the major player in that space), still requires more traction as required target remains unmet. It also remains to see how the firm's strategy of deepening its premium/upper mainstream lager segments plays out, due to the stiff competition and tussle for market share in that segment. This is further worsened by consumers' persistent shift towards the value end of the segment which is cannibalizing on demand for the premium brands. The drop in the firm's export sales also remains a pressure point to topline performance, dampening our overall projection for the company.

Valuation and Recommendation

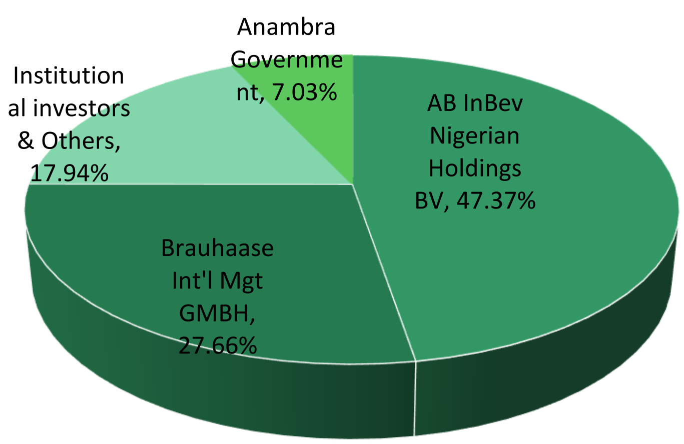
Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	0.75
Cost of Equity	16.73
Sustainable Growth Rate *Haircut	0.94%
Techniques & Weightings	
Dividend Discount Model	20%
Free Cashflow to Equity Model	40%
Free Cashflow to the Firm	40%
Equity Value Per Share	**NGN41.35**
2020FY Expected EPS	NGN1.06
2020FY Target P/E	23.00x
2020FY Target Price	**NGN24.38**

International Breweries Plc.

International breweries was incorporated as a private limited liability on the 22nd of December 1971 and became a public limited liability company on 26 April 1994. The company became a subsidiary of AB InBev (the largest producer of beer in the world) following its acquisition of SABMILLER (who had major stake in INTBREW, PABOD and INTAFACT). This led to a consolidation of the three entities' operations in 2017 into one, INTBREW.

The shareholding structure of INTBREW comprises of a majority stake of 75.03% by AB InBev (through its subsidiaries, Brauhaase International Management GMBH and AB InBev Nigerian Holdings BV), Anambra Government with 7.03% while institutional investors and others have 17.94%.

Chart 1: Shareholding Structure of International Breweries



Source: Company Filings, Meristem Research

INTBREW has a focus to increase its market share through premiumisation, expansion and strengthening of its regional footprints, while also sustaining its core/mainstream brand. INTBREW also intends to leverage on new technologies and digital transformation to better engage with and serve the needs of consumers.

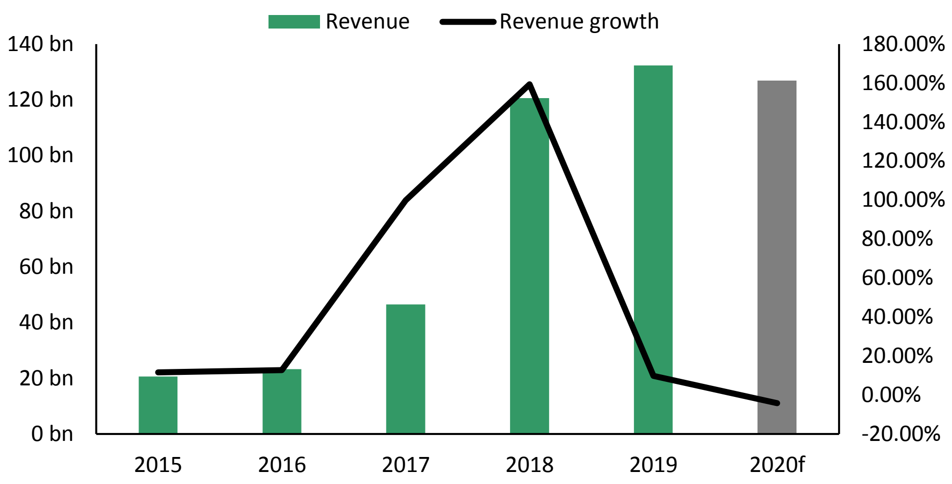
The firm's product portfolio is not so diverse when compared with rival companies. Its flagship products are Trophy (major driver of the mainstream segment), Budweiser (International premium), Life, Hero and Grand malt. In March 2020, INTBREW launched Trophy Extra Special Stout, to further improve its product offering, and still intends to widen its product portfolio by introducing other international beers like Corona and Stella Artois into the Nigerian market.

Financial Performance

Enhanced Production Capacity Boosts Revenue

INTBREW has enjoyed strong topline performance following its merger with PABOD and INTAFACT, with post-merger revenue of NGN120.61bn in 2018. Consequently, its overall market share surged from 8.91% in 2017FY to 22.31% in 2019. INTBREW's solid regional footprint, strong presence in the mainstream lager segment, as well as the strong demand for its international premium brand, Budweiser, have also contributed to enhancing sales**. However, revenue only increased marginally in Q1:2020 by 0.72% to NGN35.35bn, which is consistent with the trend observed since the second half of 2019. This signifies slowing momentum of the brewer's strategy of undercutting competitors' market share through price discounts. We envisage that performances will be underwhelming in this period, due to supply constraints on the back of movement restrictions and the anticipated sluggish demand for alcoholic beverages at this time. Hence, we project a 4.20% drop in 2020FY revenue to NGN126.79bn, from NGN132.35bn in 2019FY.**

Chart 2: INTBREW's Revenue and Revenue growth



Source: Company Filings, Meristem Research

Production and OPEX Costs Heighten

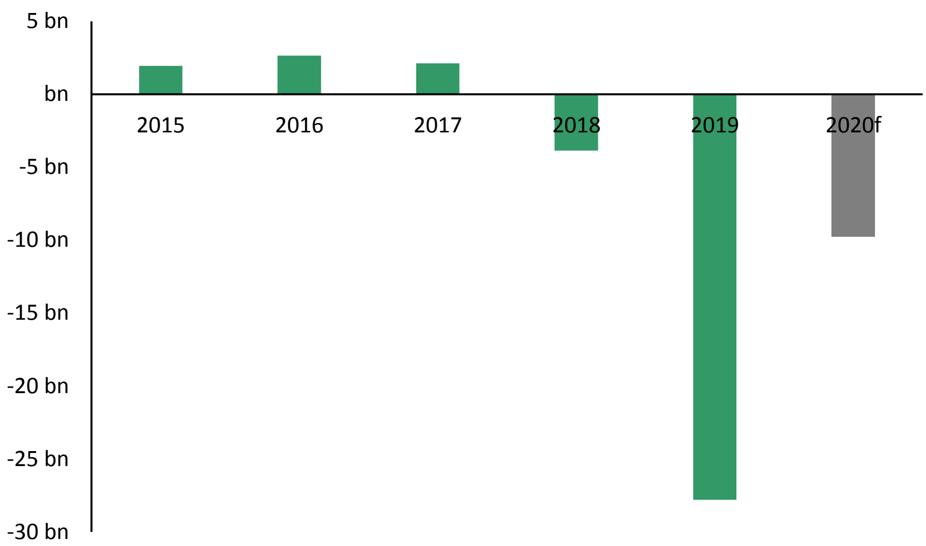
Pre-merger, INTBREW operated an average cost to sales of 55.12%, second to NB, the cost leader in the industry. However, cost of sales has trended northwards post-merger as the firm continues to incur high depreciation charges and raw material costs. In Q1:2020, production costs grew further by 11.57% to NGN29.18bn (vs. NGN26.15bn in Q1:2019), fuelled by increases in raw material expense and overhead costs (+12.55%), technical management fees (+5.17%) and depreciation expenses (+99.95%). Thus, cost to sales settled higher at 82.54% in Q1:2020.

OPEX too has remained elevated, although in Q1:2020, it trod a different path declining by 2.95% to NGN8.56bn as the brewer slowed down on promotional expenses (-3.30%) and cut down on 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%. **We expect cost to sales to dip in the near term as we envisage a moderation in depreciation expenses. We also opine that the brewer devises strategies to manage costs by optimizing its route to market.**

Operational Inefficiencies & Finance Costs Worsen Losses

Pre-merger, INTBREW's net profit expanded at a CAGR of 4.25% from the period 2013-2017. However, the company has made consecutive losses since its merger with PABOD and INTAFACT due to high consolidated finance and operating costs. This led to the firm raising a sum of NGN165bn via Rights Issue in November 2019 which was fully subscribed. This has however not stemmed the pressure as the firm reported NGN5.65bn in losses in Q1:2020. **Hence, we do not expect the company to return to a profit position by 2020FY.**

Chart 3: INTBREW'S Earnings in the Past 5 Years



Source: Company Filings, Meristem Research

Balance Sheet Metrics Signal Improvement

INTBREW's balance sheet metrics improved, following the debt repayment from the proceeds of last year's rights issue. The firm's total assets was NGN362.88bn in Q1:2020 while its total interest-bearing debt pegged at NGN107.38bn in the same period. Total debt ratio improved to 29.59% in Q1:2020 (vs. 72.20% in 2019FY) while its debt to equity ratio was 69.24% in Q1:2020 (vs. 3,534% in 2019FY). Also, both current and quick ratios inched up from 1.79x and 1.68x (as at 2019FY) to 1.87x and 1.74x respectively in Q1:2020, signalling improved liquidity.

OUTLOOK

INTBREW continues to leverage on its enhanced production capacity while deploying its strategy of undercutting competitors' market share through price discounts. While this is expedient, the firm's profitability stays threatened due to its cost inefficiencies. Also, depreciation costs are higher owing to its new plants while operating expenses remain elevated. The firm's assets turnover is also far behind its peers at 0.37x (compared to NB: 0.75x and GUINNESS:0.78x), which implies that its assets are not efficiently utilized to generate revenue. Therefore, we posit that there is a lot the firm can do regarding its capacity utilization in order to translate to higher sales.

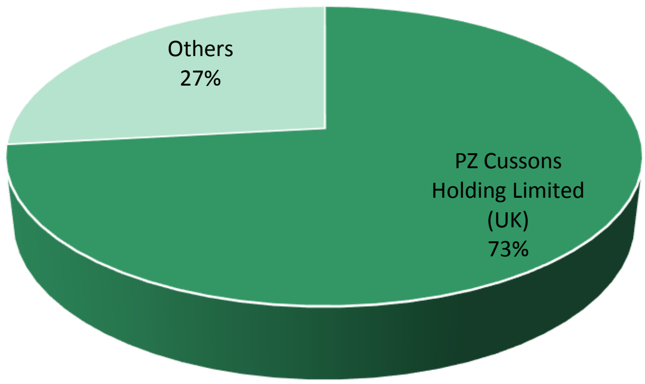
Valuation and Recommendation

Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	0.73
Cost of Equity	16.58%
Sustainable Growth Rate *Haircut	2.00%
Techniques & Weightings	
Free Cashflow to Equity	50%
Free Cashflow to the Firm	50%
Equity Value Per Share	**NGN5.32**
2020FY Target EV/EBITDA	16.84x
2020FY EBITDA Margin	8.50% (NGN10.78bn)
2020FY Target Price	**NGN4.27**

PZ Cussons Nigeria Plc.

PZ Cussons Nigeria (PZ) was incorporated in 1948 as PB Nicholas & Company Limited and became a public company in 1972, after listing on the Nigerian Stock Exchange. The company is a subsidiary of PZ Cussons Plc and is one of the leading brands in the FMCG space, with principal activities including the production and sales of a wide range of consumer products and home appliances.

Chart 1: Ownership Structure



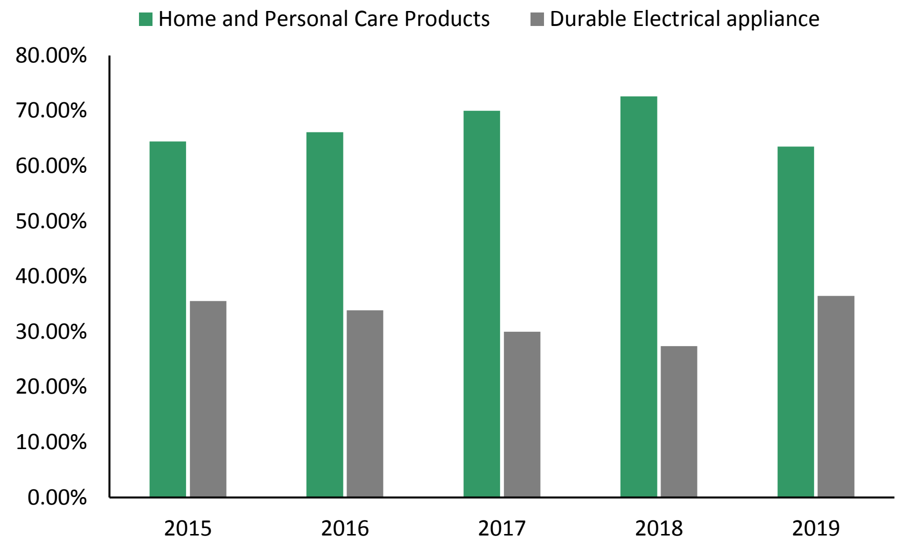
Source: Company Filings, Meristem Research

The impact of depressed consumer purse has led to lower volumes of sales and this has been a major drag to performance across the consumer goods industry. To combat this, PZ Nigeria has streamlined and optimised its product portfolio to bring more focus on key brands and categories. This is evidenced in the recently proposed sale of its dairy business, in order to focus investment on its personal care and beauty brands. The firm has also optimized its price points and pack sizes across the key brands and product portfolio, in a bid to leverage the retail end of the market and to drive volumes. PZ has also been able to secure its leadership position in the electrical appliances segment by pushing energy saving, innovative and technological products.

The company operates in four (4) core categories of consumer products which are Personal Care, Home Care, Food and Nutrition, and Electricals. In its personal and home care segments, its foremost brands are Imperial leather, Premier, Canoe, Cussons baby, Robb and Morning fresh. While in the Electricals segment we have the Haier Thermocool refrigerators, Washing machines and Cool world generators. PZ Cussons also has a joint venture unit through its strategic partnership with sister companies – Nutricima (manufacturing and sales of powdered and evaporated milk and yoghurt drinks) and PZ Wilmar (manufacturing and distribution of edible oils). However, the firm recently announced the proposed sale of its dairy business, Nutricima, to Friesland Campina WAMCO Nigeria Plc. although this is still pending regulatory approvals.

Over the last three years, the electrical appliances segment contributed an average of 31.30% to revenue, while the home and personal care segments contributed 68.70%. The electrical appliances segment is also gaining traction as its contribution to revenue improved to 36.50% in 2019FY (vs. 27.40% in 2018FY), while the home and personal care segments declined to 63.50% in 2019FY (vs. 72.60% in 2018FY).

Chart 2: Business Segments Contribution to Revenue



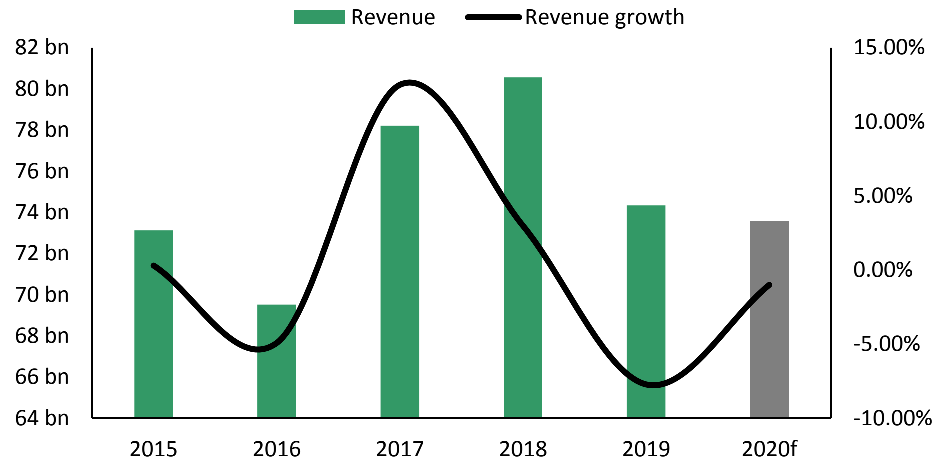
Source: Company's Fillings, Meristem Research

Financial Performance

Weak Revenue Growth

PZ Cussons' revenue growth has been weak, at a CAGR of 0.33% over the last five years. In 2019FY (its fiscal year ends in May), revenue declined by 7.72% to NGN74.34bn (vs. NGN80.55bn in 2018FY). This was largely impacted by the 19.29% decline in its home and personal care products to NGN47.20bn (vs. NGN58.48bn in 2018FY). Conversely, its durable electrical appliances segment advanced by 22.95%, but this was not sufficient to upturn the declines in the other segments. In its most recent 9M:2020 result, revenue declined marginally by 0.59%% to NGN54.74bn from NGN55.07bn in the corresponding period. **While we envisage improvement in the home and personal care brands given the radical shift in demand for this product category (result of growing hygiene awareness in the wake of the COVID-19 pandemic), we believe this benefit will only be reflected in the fourth quarter (March-May) of its financial year which ends May. More so, the intense competition in that segment could further exert pressure on topline performance in this period. Therefore, we project a marginal decline of 1.20% in 2020FY revenue to NGN71.73bn from NGN74.35bn in 2019FY.**

Chart 3: PZ's Revenue and Revenue growth



Source: Company financials, Meristem research

Cost to Sales Remains Sticky Upwards

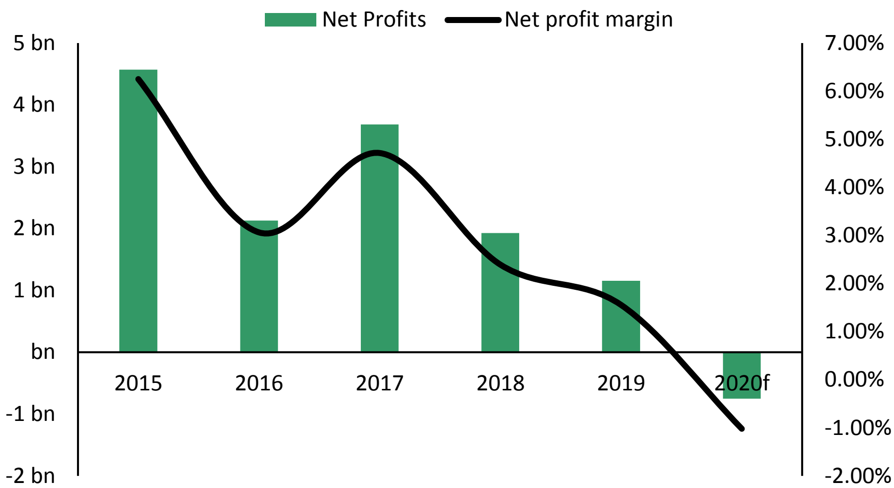
The firm operates a high cost of production, with an average cost to sales of 76.99% in the last five years. Despite the decline in 2019FY sales, direct costs remained sticky, with cost to sales advancing to 74.43% from 69.64% in 2018FY. This caused gross margin to contract to 26.43%, falling below its five-year historical average of 32.18%. In 9M:2020, cost of sales advanced by 9.08% despite the decline in revenue, pegging cost to sales at an all-time high of 84.55% and contracting gross margin to 15.45%. Operating expenses also inched up by 8.83% to NGN12.32bn, bringing operating margin to rock bottom of -7.06% from 2.40%% in 9M:2020.

Bottomline Performance to Remain Pressured

Given the pressure on the company's topline, the firm's earnings have also been on a downward trajectory from a high of NGN5.32bn in 2013 to NGN1.15bn in 2019FY. Net margin dipped to 1.55% in 2019FY, falling below its five-year average of 3.58%. In 9M:2020, its most recent result, the firm made a loss of NGN3.52bn (vs. profit of NGN0.81bn in 9M:2019). Cost pressures in the top and middle line have remained persistent, thinning out the firm's profit margins. Therefore, we are downbeat about earnings in 2020FY, as we expect a negative bottom-line.

PZ Cussons' balance sheet is relatively healthy, with total assets of NGN79.71bn and no debt obligations. Its cash position shows an improvement in net cashflow from operations which was NGN8.13bn in 9M:2020, compared to a negative of NGN9.09bn recorded in corresponding period. ROE was however 2.53% in 2019 and in comparison, with its cost of equity of 17.35% shows the need for even greater improvement to generate value for shareholders.

Chart 4: PZ's Earnings and Net profit margin



Source: Company financials, Meristem Research

Outlook

Given the competitive pressure in the home and personal care segments of the business, elevated cost of production and the meagre margins recorded in the last two quarters, we are not optimistic about PZ's performance in this financial period. Although, we expect the firm to record improved volumes owing to increased demand for essential items in the home and personal care, we opine that the extent of this benefit will be dependent on how agile the firm is in response to its route to market strategy. We also acknowledge management's strategy of disposing its non-core brands and simplifying its business operations (with focus on consumer pack innovation); we expect the benefits of this initiative to accrue in the mid-long term.

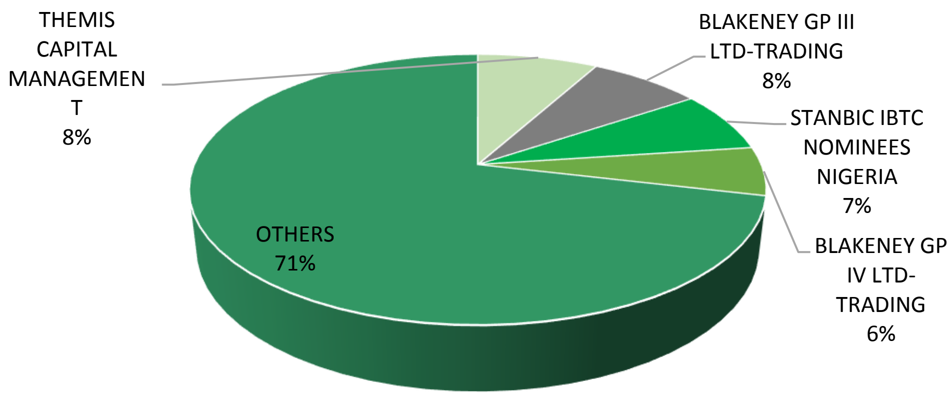
Valuation and Recommendation

Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	0.71
Cost of Equity	16.45%
Sustainable Growth Rate *Haircut	1.63%
Techniques & Weightings	
Dividend Discount Model	40%
Free Cashflow to the Firm	60%
Equity Value Per Share	**NGN5.69**
2020FY Target EV/EBITDA	6.03x
2020FY EBITDA Margin	3.20% (NGN2.35bn)
2020FY Target Price	**NGN4.58**

United Africa Company of Nigeria Plc.

United Africa Company of Nigeria (UACN) was incorporated as Nigeria Motors Ltd. in 1931 before undergoing several business restructurings leading to the present name of UACN in 1991. The company is a conglomerate with business interests across the Quick Service Restaurants (QSR), Logistics, Paints, Animal Feeds, Package Foods, and Real estate industries in Nigeria.

Chart 1: Ownership Structure



Source: Company Filings, Meristem Research

The business activities of the company are significantly diversified across seven industries in Nigeria. They include:

1. **Animal Feeds and Other Edibles**: The company has two operating companies in the animal feeds and vegetable oils industries in Nigeria and they are:
   Livestock Feeds Plc: Livestock Feeds produces and distributes animal feeds; feed concentrates and full fat soya. More recently, the company expanded its offering to include animal vaccines.
   Grand Cereals: a leading producer of cereals, edible oils, poultry feed and fish feed. Grand Cereals owns a portfolio of brands including Grand and Vital.
2. **Paints**: The company also operates through two companies in the paint segment which are:
   Chemical and Allied Products Plc: CAP is the sole technology licensee and distributor for AkzoNobel decorative range in Nigeria. The company produces decorative paint and sells through dedicated franchised retail outlets, which it pioneered.
   Portland Paints and products Plc: Portland Paints is a distributor for Hempel's industrial products in Nigeria. It also manufactures and markets decorative and industrial paints under its own brand Sandtex.
3. **UAC Restaurants:** UACR pioneered Quick Service Restaurants (QSR) in Nigeria with the launch of Mr Bigg's in 1986. The company operates two distinct brands which are Mr Biggs and Debonairs Pizza (through strategic partnership with Famous brands in South Africa).

4. **Packaged Foods and Beverages**: UAC's presence in the packaged foods and beverages industry is through UAC Foods, which deals with the production of snacks and water such as Gala, Funtime, Supreme, Swan water.
5. **Logistics**: UAC in partnership with Imperial Logistics owns MDS logistics- a subsidiary that offers a complete suite of outbound logistics and supply chain through the provision of warehousing, haulage and distribution services.
6. **Real Estate**: The company recently announced plans to spin off interest in its real estate subsidiary, UACN Property Development Company (UPDC). UPDC is involved in property development, facilities management and hospitability services.

In September 2019, UACN announced plans to embark on a restructuring process, one which involves spinning off its real estate arm which has been a drag to performance. In the same vein, UACN entered into an agreement to sell 8% of its shareholding in MDS Logistics Ltd to Imperial Capital Limited (ICL) on July 2019, which was completed in January 2020. Consequently, UACN now owns 43% of MDS thereby losing majority stake in the firm. Ultimately, the company seeks to operate as a much simpler and leaner holding company, with a comprehensive review of its organisational structure.

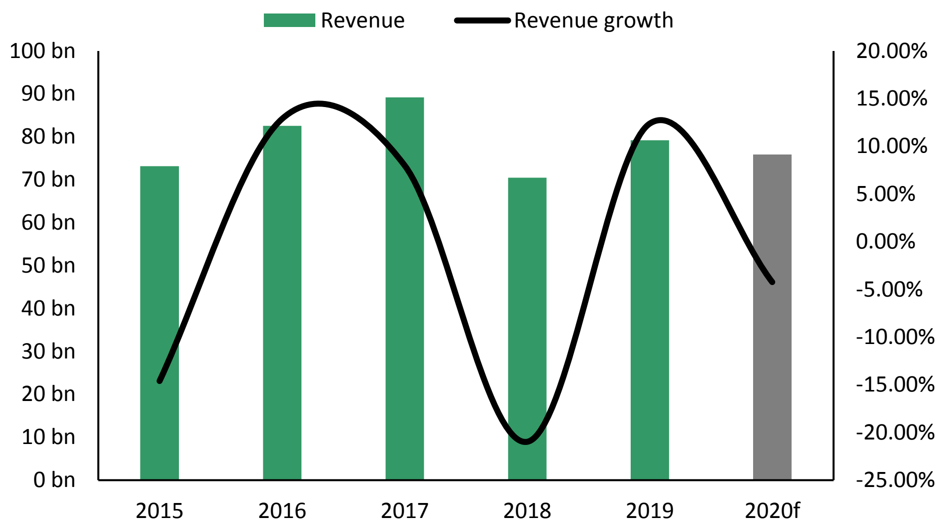
Financial Performance

Tepid Revenue Growth

Revenue growth has been modest over the years, growing at a CAGR of 1.60% over the 2015-2019 period. In 2019FY, growth was flattish, up by 0.58% to NGN79.20bn (vs. NGN78.75bn in 2018FY). Its Animal feeds subsidiary had the largest contribution to revenue at 61.77%, having advanced by 14.27% YoY. Its Packaged foods and beverages, Paints and QSR also contributed 22.14%, 13.89% and 1.90% respectively. In its most recent Q1:2020 results, revenue advanced marginally by 3.46% to NGN19.55bn (vs. Adjusted Q1:2019 revenue of NGN18.67bn); an offshoot of the improvement in the Packaged foods and Animal feeds segments by 11.25% and 2.96% apiece. **Management alluded to improved product availability for the former, and volume growth in poultry feeds for the latter as the drivers of growth in these segments. Conversely, revenue from the Paints subsidiary declined by 6.70%.**

We expect growth momentum to slow in the Packaged foods segment. In the animal feeds category, we expect competitive pressure to weaken sales growth, and a drag in the Paints business owing to its dependence on importation which could be altered in this period. Therefore, we project a decline in revenue (4.23%) to NGN75.81bn, from NGN79.20bn in 2019FY.

Chart 2: UACN's Revenue and Revenue growth



Source: *Company Filings, Meristem research*

The firm has a relatively high cost to sales, which averaged 78.12% in the last five years. In Q1:2020, cost of sales was flat at NGN15.32bn from NGN15.71bn, pegging cost to sales about the 78% level. We expect cost to sales in the coming period to tick up within 79%-80%, given the Paints segment's exposure (80%) to foreign exchange volatilities.

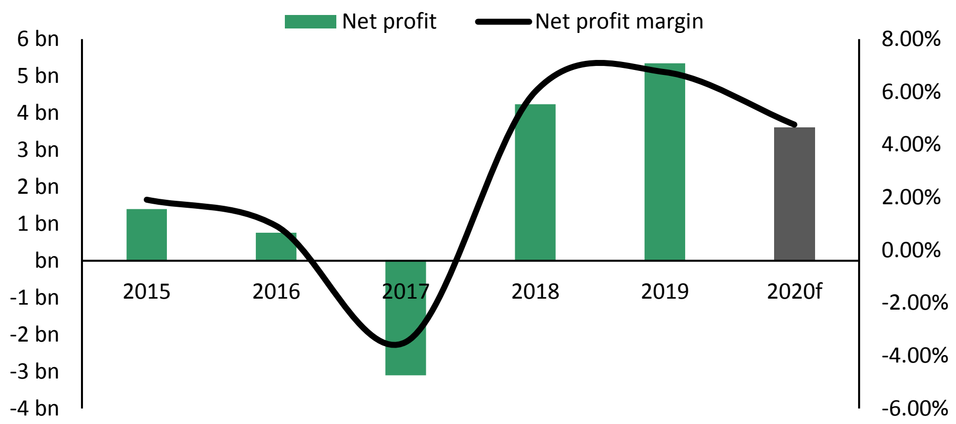
OPEX on the other hand surged by 10.90% due to increases in marketing and advertising (10.59%) as well as distribution expenses (35.89%) across major business segments. Operating margin thus pegged lower at 5.40% compared to the 8.15% posted in the corresponding period. Finance costs however, declined by 10.60% as a result of lower average interest rates on borrowings during the period.

UACN's profit after tax from continuing operations advanced by 26.15% to NGN5.34bn in 2019FY (vs. NGN4.24bn in 2018FY). However, after accounting for the loss from discontinued operations, the firm ended in a loss position of NGN9.26bn. In Q1:2020, UACN's net profits jumped by 87.15% to NGN1.86bn from NGN0.99bn in the corresponding period. The surge in net profits was aided by the profit from discontinued operations of NGN0.72bn compared to the loss of NGN0.97bn in Q1:2019**.** Consequently, net margin ticked higher to 9.53% in relation to 4.95% in Q1:2019.

Barring profits from discontinued operations, UACN's net profits declined by 41.63% to NGN1.15bn (vs. NGN1.96bn in Q1:2019). This was due to the significant decline in profits across all business segments - Animal feeds segment (-90.60%), Paints (-23.87%), Packaged foods (-17.36%), QSR (-587.95%)

Given the increased costs of production and overhead expenses which has contracted margins, we project a 32.45% decline in net profits from continued operations to NGN3.61bn from NGN5.35bn.

Chart 3: **UACN's Earnings and Net profit margin**



Source : Company Filings, Meristem Research

UACN's total assets pegged at NGN102.72bn in the first quarter of 2020, while its interest-bearing debts settled at NGN6.79bn. Total debt ratio thus, pegged at 6.61% with debt to equity of 11.29%. As at Q1:2020, Interest coverage stood at 1.11x, an improvement from the 0.63x recorded in the corresponding period.

OUTLOOK

We are downbeat about UACN's performance this year considering the prevailing headwinds. The firm's Packaged foods and Paints segments which have the highest contribution to earnings, are likely to be most hit by the harsh impact of the COVID-19 pandemic. This is owing to the discretionary nature of these products and expected decline in demand at this time. This is further exacerbated by the import-dependence nature of the Paints Segment (80% of Cost of sales), which makes it vulnerable to supply chain disruptions plus the significant exposure to fx risks. While we expect modest topline gains in the animal feeds segment, the high cost of sales and operating expenses continue to weigh on margins thus, dampening growth prospects.

Valuation and Recommendation

Valuation Metrics	
Risk Free Rate	11.38%
Adjusted Beta	1.03
Cost of Equity	18.69%
Sustainable Growth Rate	1.55%
Techniques & Weightings	
Dividend Discount Model	40%
Free Cashflow to the firm	60%
Equity Value Per Share	**NGN11.73**
2020FY Target EV/EBITDA	1.10x
2020FY EBITDA Margin	7.00% (NGN5.31bn)
2020FY Target Price	**NGN8.08**

Table 1: Valuations and Ratings

	Fundamentals					Trailing				Valuation					
	AT	**NM**	**ROE**	**ROA**	**Lev**	**EPS**	**BVP**	**P/E**	**P/BV**	**Target PE**	**Exp. EPS**	**2020 TP**	**CP**	**UPP**	**RT**
NESTLE	1.54	15.54%	77.70%	23.86%	3.26	55.55	71.5	17.9x	13.9x	20.00x	60.00	1,200.00	1,179.00	2%	HOLD
NASCON	0.15	25.86%	15.18%	3.97%	3.82	0.67	4.42	17.3x	2.6x	10.00x	1.36	13.60	11.60	17%	BUY
FLOURMILL	2.81	1.93%	5.29%	5.40%	0.98	1.99	37.61	10.5x	0.6x	8.50x	2.62	22.27	19.70	13%	BUY
HONYFLOUR	0.59	-1.29%	-1.79%	-0.76%	2.37	-0.13	7.03	-7.3x	0.1x	2.50x	0.38	0.95	0.99	-4%	HOLD
NB	0.83	4.21%	8.23%	3.51%	2.34	1.7	20.64	24.7x	2.0x	25.00x	1.60	40.00	37.00	8%	HOLD
GUINNESS	0.78	2.06%	2.98%	1.61%	1.85	1.18	39.76	14.8x	0.4x	23.00x	1.06	24.38	16.50	48%	BUY
INTBREW	0.37	-22.21%	-17.89%	-8.12%	2.2	-1.1	6.13	-4.3x	0.8x	-	-	4.27	4.55	-6%	HOLD
PZ	0.93	-2.25%	-3.76%	-2.10%	1.8	-0.41	11.02	-11.8x	0.4x	-	-	4.58	4.90	-7%	HOLD
UACN	0.77	-10.67%	-13.96%	-8.17%	1.71	-2.91	20.86	-2.5x	0.3x	-	-	8.08	7.00	15%	BUY

**TP = Target Price, CP=Current Price, UPP= Upside Potential, RT = Rating, Exp. EPS = 2020Dec Expected Earnings Per Share, BVP = Book Value Per Share, P/E= Price to Earnings, AT= Assets Turnover, NM=Net Margin, Lev= Leverage, ROE = Return on Equity, ROA = Return on Assets*

APPENDICES

NESTLE NIGERIA PLC.

Normalised Income Statement NGN' bn	2018	2019	2020f	2021f	2022f	2023f
Revenue	**266.27**	**284.04**	**304.71**	**319.88**	**357.99**	**424.36**
Cost of sales	152.35	155.89	167.56	174.44	196.89	233.40
Gross profit	**113.92**	**128.15**	**137.13**	**145.44**	**161.09**	**190.96**
Administrative expenses	9.79	10.01	14.80	15.99	17.89	21.22
Selling & Distribution expenses	43.39	46.08	50.52	51.18	57.28	67.90
Operating Profit	**60.64**	**72.06**	**71.81**	**78.26**	**85.92**	**101.85**
Finance charges	2.61	2.27	1.59	1.60	1.79	2.12
Finance income	1.72	1.33	1.27	1.28	1.43	1.70
(Loss)/profit before taxation	**59.75**	**71.12**	**71.49**	**77.94**	**85.56**	**101.42**
Tax expense/ credit	16.74	25.44	23.44	26.23	29.36	34.80
(Loss) / profit for the year	**43.01**	**45.68**	**48.05**	**51.71**	**56.20**	**66.63**

Summarised Balance Sheet NGN' bn	2018	2019	2020f	2021f	2022f	2023f
Total Asset	162.33	193.37	203.14	213.25	238.66	282.91
Net Asset	50.22	45.56	56.35	70.81	89.76	119.13
Liabilities	112.113	147.82	146.78	142.44	148.90	163.78
Interest Bearing	8.32	13.21	14.68	14.24	14.89	16.38
Others	103.77	134.61	132.10	128.20	134.01	147.40

NASCON ALLIED INDUSTRIES PLC.

Normalised Income Statement NGN' bn	2018	2019	2020f	2021f	2022f	2023f
Revenue	**25.77**	**27.58**	**30.89**	**32.43**	**34.05**	**35.75**
Cost of sales	17.99	21.65	20.17	20.98	21.64	22.83
Gross profit	**7.78**	**5.92**	**7.96**	**8.47**	**9.23**	**9.79**
Administrative expenses	1.87	2.03	1.98	1.95	2.16	2.28
Selling & Distribution expenses	0.83	0.83	2.01	1.33	1.39	1.47
Operating Profit	**5.98**	**3.06**	**4.41**	**5.20**	**5.73**	**6.11**
Finance charges	-	0.30	0.38	0.35	0.31	0.33
Finance income	0.47	0.09	0.20	0.27	0.28	0.30
(Loss)/profit before taxation	**6.45**	**2.85**	**4.23**	**5.12**	**5.70**	**6.08**
Tax expense/ credit	2.03	0.95	1.04	1.03	1.08	1.14
(Loss) / profit for the year	**4.42**	**1.90**	**3.19**	**4.09**	**4.62**	**4.94**

Summarised Balance Sheet NGN' bn	2018	2019	2020f	2021f	2022f	2023f
Total Asset	30.27	34.94	38.61	40.54	42.56	43.08
Net Asset	11.66	11.19	11.73	13.16	15.13	17.42
Liabilities	18.61	23.76	26.88	27.37	27.43	25.66
Interest Bearing	0.66	4.81	4.03	2.774	2.74	2.57
Others	17.95	18.95	22.85	24.64	24.69	23.09

FLOURMILLS OF NIGERIA PLC.

	2018	2019	2020f	2021f	2022f	2023f
Normalised Income Statement NGN' bn						
Revenue	**542.67**	**527.40**	**576.86**	**591.29**	**645.55**	**712.35**
Cost of sales	473.90	474.06	510.63	520.65	571.30	630.31
Gross profit	**68.78**	**53.35**	**66.24**	**70.64**	**74.25**	**82.04**
Other Operating Income	5.94	6.21	1.29	1.15	1.30	0.85
Administrative expenses	20.12	19.42	24.93	26.61	28.08	24.93
Selling & Distribution expenses	6.18	8.17	9.24	11.46	9.68	10.69
Operating Profit	**48.42**	**32.30**	**33.25**	**33.71**	**37.78**	**47.28**
Finance charges	32.70	22.89	17.72	17.74	19.37	21.37
Finance income	0.82	0.77	0.76	0.50	0.32	0.36
(Loss)/profit before taxation	**16.54**	**10.17**	**16.39**	**16.48**	**18.74**	**26.27**
Tax expense/ credit	2.93	5.95	5.77	5.35	6.07	8.41
(Loss) / profit for the year	**13.05**	**4.00**	**10.62**	**11.13**	**12.67**	**17.86**

Summarised Balance Sheet NGN' bn	**2018**	**2019**	**2020f**	**2021f**	**2022f**	**2023f**
Total Asset	408.35	416.82	388.54	394.19	430.36	474.90
Net Asset	150.62	150.97	151.95	158.98	166.72	178.43
Liabilities	257.73	265.85	236.59	235.21	263.64	296.47
Interest Bearing	133.30	117.28	122.52	105.85	121.28	139.34
Others	124.43	148.57	114.08	129.37	142.38	157.13

HONEYWELL FLOURMILLS PLC

	2018	2019	2020f	2021f	2022f	2023f
Normalised Income Statement NGN' bn						
Revenue	**71.48**	**74.41**	**79.25**	**84.00**	**88.20**	**91.73**
Cost of sales	55.42	52.90	64.98	68.88	70.56	74.30
Gross profit	**16.05**	**11.51**	**14.26**	**15.12**	**17.64**	**17.43**
Other Operating Income	0.20	0.75	-	-	-	-
Administrative expenses	2.06	2.33	2.38	2.42	2.54	2.61
Selling & Distribution expenses	4.72	6.02	3.57	3.63	3.81	3.91
Operating Profit	**9.48**	**3.92**	**5.78**	**6.57**	**8.93**	**8.42**
Finance charges	4.60	3.31	3.25	3.28	2.47	2.32
Finance income	-	-	0.95	1.18	1.32	1.38
(Loss)/profit before taxation	**4.87**	**0.61**	**3.48**	**4.46**	**7.78**	**7.47**
Tax expense/ credit	0.45	0.54	1.11	1.43	2,39	2.39
(Loss) / profit for the year	**4.43**	**0.07**	**2.37**	**3.03**	**5.29**	**5.08**

Summarised Balance Sheet NGN' bn	**2018**	**2019**	**2020f**	**2021f**	**2022f**	**2023f**
Total Asset	124.84	137.51	132.08	152.73	161.30	163.19
Net Asset	56.39	56.67	56.74	58.91	61.70	66.46
Liabilities	68.44	80.84	75.34	93.81	99.59	96.72
Interest Bearing	50.39	55.24	21.10	28.14	37.85	38.69
Others	18.05	25.60	54.24	65.67	61.75	58.03

NIGERIAN BREWERIES PLC.

	2017	2018	2019	2020f	2021f	2022f
Normalised Income Statement NGN'000						
Revenue	**344,562,517**	**324,388,500**	**323,007,470**	**314,157,065**	**315,727,851**	**322,042,408**
Cost of sales	168,322,222	167,985,656	160,354,081	157,078,533	158,811,109	162,631,416
Gross profit	**176,240,295**	**156,402,844**	**162,653,389**	**157,078,533**	**156,916,742**	**159,410,992**
Administrative expenses	88,646,688	90,837,622	97,050,643	95,817,905	98,507,089	99,833,146
EBITDA	**87,593,607**	**65,565,222**	**65,602,746**	**61,260,628**	**58,409,652**	**59,577,845**
Depreciation	32,691,135	29,499,038	31,402,432	31,415,707	29,678,418	30,594,029
EBIT	**54,902,472**	**36,066,184**	**34,200,314**	**29,844,921**	**28,731,234**	**28,983,817**
Other income	2,218,588	885,364	1,005,286	1,162,381	3,157,279	4,830,636
Finance costs	10,663,076	7,891,519	12,114,546	12,248,984	12,629,114	12,881,696
(Loss)/profit before taxation	**46,457,984**	**29,421,952**	**23,091,054**	**18,758,318**	**19,259,399**	**20,932,756**
Tax expense/ credit	13,581,499	9,984,008	7,245,842	6,002,662	6,163,008	6,698,482
(Loss) / profit for the year	**32,876,485**	**19,437,944**	**15,845,212**	**12,755,656**	**13,096,391**	**14,234,274**

Summarised Balance Sheet NGN'000	**2017**	**2018**	**2019**	**2020f**	**2021f**	**2022f**
Total Asset	382,228,093	388,262,869	382,777,522	430,352,144	432,503,905	435,192,443
Net Asset	178,298,427	166,828,452	167,749,979	170,301,110	172,920,389	175,624,901
Liabilities	203,929,666	221,434,417	215,027,543	260,051,034	259,583,516	259,567,542
Interest Bearing	8,470,930	44,066,185	55,719,531	91,017,862	85,662,560	77,870,263
Others	195,458,736	177,368,232	159,308,012	169,033,172	173,920,956	181,697,279

GUINNESS NIGERIA PLC.

	2017	2018	2019	2020f	2021f	2022f
Normalised Income Statement NGN'000						
Revenue	**125,919,817**	**142,975,792**	**131,498,373**	**121,241,500**	**123,666,330**	**127,376,320**
Cost of sales	68,969,509	85,111,658	91,369,145	84,626,567	85,317,401	87,889,661
Gross profit	**56,950,308**	**57,864,134**	**40,129,228**	**36,614,933**	**38,348,929**	**39,486,659**
Administrative expenses	38,976,307	35,907,520	21,515,100	20,586,807	21,023,276	21,653,974
EBITDA	**17,974,001**	**21,956,614**	**18,614,128**	**16,028,126**	**17,325,653**	**17,832,685**
Depreciation	8,635,004	9,238,729	10,093,703	10,790,493	8,656,643	8,916,342
EBIT	**9,338,997**	**12,717,885**	**8,520,425**	**5,237,633**	**8,669,010**	**8,916,342**
Other income	847,333	668,363	750,903	969,932	1,236,663	1,273,763
Finance costs	9,777,634	5,644,560	2,613,309	2,788,554	3,091,658	3,184,408
(Loss) / profit before taxation	**408,696**	**7,741,688**	**6,658,019**	**3,419,010**	**6,814,015**	**7,005,698**
Tax	738,361	3,225,559	1,619,898	1,094,083	2,180,485	2,241,823
(Loss) / profit for the year	**-329,665**	**4,516,129**	**5,038,121**	**2,324,927**	**4,633,530**	**4,763,874**

Summarised Balance Sheet NGN'000	**2017**	**2018**	**2019**	**2020f**	**2021f**	**2022f**
Total Asset	146,038,216	153,254,968	160,792,627	161,655,333	164,888,440	165,423,792
Net Asset	42,943,015	87,588,174	89,060,462	89,151,199	90,280,118	90,926,074
Liabilities	103,095,201	65,666,794	71,732,165	72,504,134	74,608,322	74,497,718
Interest Bearing	41,922,799	13,734,873	19,926,624	21,026,199	20,890,330	20,114,384
Others	61,172,402	51,931,921	51,805,541	51,477,935	53,717,992	54,383,334

INTERNATIONAL BREWERIES PLC.

Normalized Income Statement N'000	2017	2018	2019	2020f	2021f	2022f
Revenue	**46,499,691**	**120,610,825**	**132,351,500**	**126,792,737**	**128,441,043**	**131,009,863**
Cost of sales	26,911,918	68,355,482	89,049,098	83,683,206	84,771,088	86,466,510
Gross profit	**19,587,773**	**52,255,343**	**43,302,402**	**43,109,531**	**43,669,954**	**44,543,354**
Administrative expenses	10,137,352	32,553,845	30,741,219	26,626,475	20,550,567	20,961,578
EBITDA	**9,450,421**	**19,701,498**	**12,561,183**	**16,483,056**	**23,119,388**	**23,581,775**
Depreciation	2,648,172	9,210,433	29,491,050	27,894,402	25,688,209	20,961,578
EBIT	**6,802,249**	**10,491,065**	**-16,929,867**	**-11,411,346**	**-2,568,821**	**2,620,197**
Finance income	534,018	84,265	1,776	1,267,927	2,568,821	1,048,079
Finance costs	5,060,185	16,029,632	15,183,733	3,803,782	2,568,821	2,620,197
(Loss) / profit before taxation	**2,276,082**	**-5,454,302**	**-32,111,824**	**-13,947,201**	**-2,568,821**	**1,048,079**
Tax	3,728,919	4,183,014	8,376,284	4,184,160	770,646	335,385
(Loss) / profit for the year	**6,005,001**	**-1,271,288**	**-23,735,540**	**-9,763,041**	**-1,798,175**	**712,694**

Summarised Balance Sheet NGN'000	2017	2018	2019	2020f	2021f	2022f
Total Asset	232,149,251	310,308,494	365,146,533	362,264,963	366,974,407	357,950,447
Net Asset	39,225,363	35,160,923	7,463,701	164,593,468	162,795,293	163,507,987
Liabilities	192,923,888	275,147,571	357,682,832	197,671,495	204,179,114	194,442,459
Interest Bearing	88,042,663	217,177,037	263,635,091	102,789,177	95,175,598	80,163,872
Others	104,881,225	57,970,534	94,047,741	94,882,318	109,003,516	114,278,587

PZ CUSSONS NIGERIA PLC.

Normalized Income Statement NGN'000	2017	2018	2019	2020f	2021f	2022f
Revenue	**78,215,660**	**80,552,808**	**74,336,468**	**73,593,103**	**75,800,896**	**78,832,932**
Cost of sales	50,267,760	53,540,051	54,691,380	55,930,759	56,320,066	58,336,370
Gross profit	**27,947,900**	**27,012,757**	**19,645,088**	**17,662,345**	**19,480,830**	**20,496,562**
Administrative expenses	14,732,544	16,227,512	14,828,223	15,307,365	15,918,188	16,554,916
EBITDA	**13,215,356**	**10,785,245**	**4,816,865**	**2,354,979**	**3,562,642**	**3,941,647**
Depreciation	2,324,138	2,557,164	2,543,853	2,943,724	2,274,027	2,364,988
EBIT	**10,891,218**	**8,228,081**	**2,273,012**	**-588,745**	**1,288,615**	**1,576,659**
Finance income	485,569	180,657	294,997	441,559	758,009	748,913
Exchange loss	8,797,880	5,391,604	444,277	735,931	758,009	788,329
Finance costs	290,477	832,373	304,027	367,966	682,208	788,329
(Loss)/profit before taxation	**2,288,430**	**2,184,761**	**1,819,705**	**-1,251,083**	**606,407**	**748,913**
Tax expense/ credit	1,124,572	386,389	786,596	500,433	194,050	239,652
(Loss) / profit for the year	**1,163,858**	**1,798,372**	**1,033,109**	**-750,650**	**412,357**	**509,261**

Summarised Balance Sheet NGN'000	2017	2018	2019	2020f	2021f	2022f
Total Asset	90,087,525	88,615,970	79,936,740	80,871,542	83,297,688	86,629,596
Net Asset	45,137,877	45,108,589	45,752,288	46,385,070	46,485,698	46,551,117
Liabilities	44,949,648	43,507,381	34,184,452	34,486,472	36,811,991	40,078,479
Interest Bearing	0	234,985	0	-	-	-
Others	44,949,648	43,272,396	34,184,452	34,486,472	36,811,991	40,078,479

UNITED AFRICA COMPANY OF NIGERIA PLC.

Normalized Income Statement NGN'000	2017	2018	2019	2020f	2021f	2022f
Revenue	89,178,082	70,473,640	79,202,140	75,851,889	76,762,112	79,064,976
Cost of sales	65,585,535	57,230,823	62,575,242	59,922,993	60,258,258	62,066,006
Gross profit	**23,592,547**	**13,242,817**	**16,626,898**	**15,928,897**	**16,503,854**	**16,998,970**
Administrative expenses	11,494,356	7,736,816	10,673,839	10,619,265	9,979,075	10,278,447
EBITDA	**12,098,191**	**5,506,001**	**5,953,059**	**5,309,632**	**6,524,780**	**6,720,523**
Depreciation	7,635,999	2,154,244	2,351,825	2,275,557	2,302,863	2,316,604
EBIT	**4,462,192**	**3,351,757**	**3,601,234**	**3,034,076**	**4,221,916**	**4,403,919**
Finance income	1,861,352	2,765,977	2,781,020	2,275,557	1,535,242	1,581,300
Other losses/Income	1,320,858	568,481	2,065,179	1,517,038	1,535,242	1,581,300
Finance costs	6,185,438	610,661	991,174	1,517,038	1,535,242	1,581,300
(Loss)/profit before taxation	**-1,182,752**	**6,075,554**	**7,456,259**	**5,309,632**	**5,757,158**	**5,985,219**
Tax expense/ credit	1,921,733	1,838,357	2,110,943	**1,699,082**	**1,842,291**	**1,915,270**
(Loss) / profit for the year	**-3,104,485**	**4,237,197**	**5,345,316**	**3,610,550**	**3,914,868**	**4,069,949**
Discontinued Operations		13,767,342	14,601,729			
Loss for the period		-9,530,145	-9,256,413			

Summarized Balance Sheet NGN'000	2017	2018	2019	2020f	2021f	2022f
Total Asset	130,617,132	131,093,162	108,531,117	101,135.853	102,349,483	102,681,786
Net Asset	73,126,421	74,208,028	59,896,388	63,218,808	66,701,482	70,195,171
Liabilities	57,490,711	56,885,134	48,634,729	37,917,044	35,648,001	32,486,615
Interest Bearing	25,109,447	24,172,361	6,534,198	7,204,238	7,842,560	7,147,055
Others	32,381,264	32,712,773	42,100,531	30,712,806	27,805,441	25,339,560

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