

INTBREW Records Worst Q2 Performance Post-Merger

Subdued Demand Underpin Decline in Volumes

International Breweries Plc. (**INTBREW**), reported a 24.66% decline in revenue to NGN25.27bn in Q2: 2020 (vs. NGN33.53bn in Q2:2019). As expected, sales slowed during the period due to softer demand for alcoholic beverages in the absence of social gatherings, plus a general shift towards non-discretionary spending. The underwhelming outing in the second quarter weighed on the already fragile first quarter performance where revenue inched up by a meagre 0.72% relative to Q1:2019. As a result, topline settled at NGN60.61bn for H1:2020 (vs. NGN68.63bn in H1:2019). *We still see scope for further decline in sales despite the phased relaxation of lockdowns due to the ongoing social gathering restrictions, which might likely remain for the rest of the year. Considering the significant impact COVID-19 had on sales in the last quarter, we envisage volumes in the coming period to remain depressed amidst the ongoing intense competition in the industry.* Risks remain tilted to the downside, thus, we revise our revenue projection downwards by 13.24% to NGN111.97bn from NGN126.79bn earlier projected. This implies a 15.40% decline from 2019FY.

Sharp Cut to Marketing Spend Sustains OPEX Downtrend

In Q2 standalone, production costs fell by 21.20% in line with the drop in revenue to NGN21.90bn, bringing total cost of sales for H1:2020 to NGN51.07bn (5.32% less than in H1:2019). The drop off is traceable to declines in raw material expenses and overhead costs (-23.49% YoY), technical management fees (-53.21% YoY) and depreciation expenses (-48.86% YoY). Despite this moderation, cost to sales for H1:2020 edged up to 84.26% (vs. 78.60% in the corresponding period) while gross margin contracted to 15.74%, from 21.40% in H1:2019. The brewer also slowed down on marketing (-50.34% YoY) and admin expenses (-4.37% YoY) during the quarter which drove operating expenses down by 11.25% YoY to NGN15.97bn. Gains from derivative and sundry income were not enough to bolster operating profit which worsened to -NGN11.03bn from -NGN3.50bn in H1:2019.

In H1:2020, interest bearing obligations settled lower at NGN107.59bn after the brewer repaid a portion of its debt (NGN164.53bn) in Q1:2020. Thus, finance costs for the period fell sharply to NGN948mn (vs. NGN7.03bn in H1:2019). This coupled with a tax credit of NGN2.63bn moderated the overall loss to NGN9.36bn. *For the rest of the year, we maintain our position of the firm remaining in a loss position this year due to the significant contraction in topline and lingering cost pressures.*

Liquidity Remains Constrained

INTBREW generated NGN9.15bn from operations in H1:2020, 73.16% lower than the NGN34.08bn recorded in the previous year due to changes in working capital management. The firm's trade receivables declined to NGN21.41bn in H1:2020, while the brewer held off on payment to suppliers, pushing account payables up to NGN79.81bn and days of payables to 279days (**NB**: 191days, **GUINNESS**: 141days). Both current and quick ratio settled at 0.40x and 0.28x (vs. 0.40x and 0.29x as at 2019FY) – signaling no net improvement in liquidity conditions, while working capital remained pressured at -NGN114.26bn as at H1:2020.

Outlook and Recommendation

As we highlighted in our Q1:2020 update, our bearish outlook for the rest of the year is colored by existing industry headwinds (intense competition, excise duties and muted consumer spending) as well as the impact of COVID-19 on sales. Accordingly, we revise our estimates of 2020FY EBITDA margin to 5.00% (NGN5.60bn) and target EV/EBITDA multiple at 27.50x. This yields a target price of NGN2.90, which represents an downside potential of -12.12% compared to its price of NGN3.30 on July 29th, 2020. Therefore, we place a **SELL** rating on the ticker.

Company	INTBREW
Valuation	
Trailing EPS	-1.13x
BVPS	5.65
P/E	-2.96x
P/BV	0.59x
Target EV/EBITDA	28.00
Dec-2020 EBITDA	
NGN	5.60bn
Dec 2020 Target price	2.90
Current Price	3.30
Up/Downside Potential	-12.12%
Ratings	SELL
Key metrics	
ROaE	-38.11%
ROaA	-8.44%
Net margin	-15.44%
Asset Turnover	0.35
Leverage	2.33
Share/Share price Statistics	
Yr Hi	9.50
Yr Lo	3.30
YTD return	-65.26%
Beta	0.64
Adjusted Beta	0.76
Shares outstanding	26.86bn
Market cap [NGN]	134.31bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

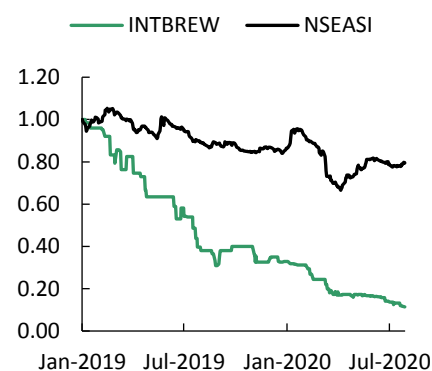


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	2.45
						Max	3.37
						Target EBITDA/Share (NGN)	
						0.21	0.22
						0.23	0.23
						0.24	
Target EV/EBITDA	26.68x	2.45	2.59	2.73	2.87	3.01	
	27.09x	2.54	2.68	2.82	2.96	3.10	
	27.50x	2.62	2.76	2.90	3.05	3.19	
	27.91x	2.70	2.84	2.99	3.14	3.28	
	28.33x	2.78	2.93	3.08	3.22	3.37	

Financial Highlights (NGN billion) INTBREW PLC H1:2020 Unaudited Financial Results

<i>Profit & Loss Account</i>	H1:2020	H1:2019	y/y Growth
Revenue	60.61	68.63	-11.68%
Cost of Sales	51.08	53.94	-5.32%
Gross Profit	9.54	14.69	-35.05%
OPEX	15.97	18.00	-11.25%
Operating Profit	(11.03)	(3.50)	N/A
Other Income/(Expense)	(4.60)	(0.19)	N/A
Net Finance Charges	(0.95)	(7.03)	86.51%
PBT	(11.98)	(10.53)	-13.84%
PAT	(9.36)	(6.84)	-36.77%
<i>Balance Sheet</i>	H1:2020	FY: 2019	
PPE	264.12	271.16	-2.60%
Inventories	22.38	21.98	1.82%
Trade and Other Receivables	21.41	27.80	-23.01%
Cash and cash equivalents	31.63	31.81	-0.56%
Other Assets	14.98	12.40	20.77%
Total Assets	354.50	365.15	-2.92%
Shareholders' fund	151.84	7.46	N/A
Trade and Other Payables	79.81	88.19	-9.50%
Total Borrowings	107.59	263.64	-59.19%
Total Liabilities	202.66	357.68	-43.34%

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Movements in Price Target

Company Name: International Breweries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
05-May-2020	4.90	4.27	4.27	SELL	SELL
03-Aug-2020	3.30	4.27	2.90	SELL	SELL

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International Breweries Plc.	

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