

Covid-Effect Worsens Performance

Slower than Expected Demand Drags Topline

Following a slow start to the year where first quarter revenue declined by 0.09% Year on Year (YoY), Nigerian Breweries Plc. (NB) reported an even sharper drop in its Q2:2020 financial scorecard. Revenue was down 21.06% in Q2:2020 standalone relative to Q2:2019 – *representing the brewer's worst second quarter performance since Q2:2011*. While we alluded to a likely drop off in sales in our Q1:2020 earnings update, we did not envisage this magnitude of decline given that NB typically records the best performance in Q2. At NGN151.81bn, revenue for H1:2020 was 10.80% lower than the corresponding period of 2019. **The restriction of various point of consumption and large social gatherings continue to weigh on the demand for alcoholic beverages. This is further worsened by the general tilt towards essential items in the face of shrinking disposable income of consumers. More so, market feelers suggest that consumers were unreceptive to the price increases imposed by the brewer on certain brands last year. Based on the aforementioned, we remain downbeat about performance for the rest of the year. In addition, we envisage a poorer third quarter result especially because Q3 is typically the worst quarter for the brewers, as sales are generally weak during the period.** Thus, we revised our initial revenue projection of NGN314.47bn downward by 13.33%. We now expect 2020FY revenue to drop by 15.63% YoY to NGN272.54bn.

Cost Savings Fail to Support Bottom-Line

Although, production costs fell in line with revenue, cost to sales inched up to 61.04% in H1:2020 (vs. 57.90% in H1:2019), contracting gross margin to 38.96% (vs. 42.10% in the corresponding period). OPEX bucked the trend in Q1:2020, as it moderated to NGN20.29bn in Q2:2020 (vs. NGN26.46bn in Q2:2019). This set OPEX lower by 6.68% to NGN44.43bn in H1:2020 (from NGN47.61bn in H1:2019), owing to the drop (10.03%) in marketing and distribution expenses. However, the moderation in OPEX was insufficient to support the already weak margins, hence, operating profit fell by 38.49%, with a deterioration in operating margin to 9.91% from 14.37% in H1:2019. In line with our expectation for interest expense, net finance costs went up by 32.59% to NGN6.70bn as total borrowings (comprised of bank overdrafts, commercial papers and other bank loans) settled at NGN139.45bn (vs. NGN55.72bn as at 2019FY). The increase in finance costs and a higher effective tax rate of 33.62% (vs. 31.42%) put further strain on earnings. Consequently, PAT fell significantly by 58.03% to NGN5.59bn (vs. NGN13.32bn in H1:2019), dragging net margin to 3.68% (*the lowest in the brewer's history*), from 7.83% in H1:2019. This led to a slump in ROE to 6.97%, from 14.86% in H1:2019. Factoring our expectation of a moderation in topline amid rising cost pressures, particularly finance costs, we have revised our forecast for PAT downwards to NGN6.99bn - a 56.59% Y-o-Y decline from NGN16.11bn in 2019FY.

NB Increases CAPEX Spending in H1:2020

Cash generated from operations pegged at NGN9.49bn during the period, while total cash balance improved by 797.70% to NGN57.10bn due to inflows from loans and borrowings. In addition, there was increase in capital expenditure (NGN14.66bn) as NB invested in plant and equipment during the period to support its growth projection.

Outlook and Recommendation

Premised on our adjustment of expected EPS to NGN0.87, from NGN1.60 and new target PE of 35.00x, we arrived at a TP of NGN30.45. This represents a downside potential of 4.84% when compared to the closing price as at 6th of August, 2020. Hence, we place a **HOLD** recommendation on the ticker.

Company	NB
Valuation	
Trailing EPS	1.05
BVPS	20.12x
P/E	29.59x
P/BV	1.54x
Target PE	35.00x
Dec-2020 Exp. EPS	0.87x
Dec 2020 Target price	30.45
Current Price	32.00
Up/Downside Potential	-4.84%
Ratings	HOLD
Key metrics	
ROAE	5.10%
ROAA	1.98%
Net margin	3.68%
Asset Turnover	0.72
Leverage	2.88
Yr Hi	59.00
Yr Lo	22.00
YTD return	-62.71%
Beta	0.80
Adjusted Beta	0.86
Shares outstanding	8.00bn
Market cap [NGN]	247.90bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

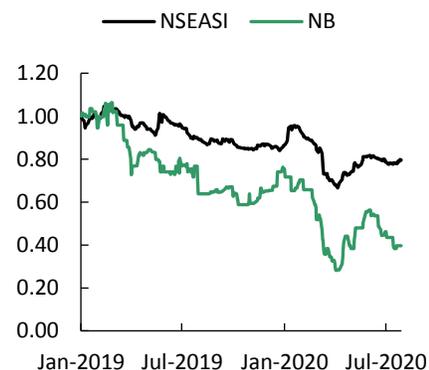


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	27.78
						Max	33.28
EPS							
		0.81	0.84	0.87	0.90	0.94	
Target PE	34.5x	27.78	28.87	30.02	31.16	32.34	
	34.8x	27.98	29.08	30.23	31.38	32.57	
	35.0x	28.18	29.29	30.45	31.61	32.81	
	35.3x	28.38	29.50	30.67	31.83	33.04	
	35.5x	28.58	29.71	30.89	32.06	33.28	

Financial Highlights (NGN billion) NIGERIAN BREWERIES PLC H1:2020 Results

<i>Profit & Loss Account</i>	H1:2020	H1:2019	y/y Growth
Revenue	151.81	170.19	-10.80%
Cost of Sales	92.67	98.54	-5.96%
Gross Profit	59.14	71.65	-17.46%
OPEX	44.43	47.61	-6.68%
Operating Profit	15.05	24.46	-38.49%
Other Income	0.33	0.42	-20.91%
Net Finance Costs	6.70	5.05	32.59%
PBT	8.35	19.41	-57.00%
PAT	5.59	13.32	-58.03%
<i>Balance Sheet</i>	H1:2020	FY: 2019	
Property, Plant and Equipment	200.77	201.91	-0.56%
Inventories	40.05	38.52	3.96%
Trade and other Receivables	32.86	21.31	54.21%
Cash and Cash Equivalents	57.10	6.36	797.70%
Other Assets	133.34	114.68	16.27%
Total Assets	464.12	382.78	21.25%
Shareholders' fund	160.89	167.75	-4.09%
Trade and Other Payables	97.25	102.78	-5.38%
Tax Liabilities	20.19	23.17	-12.88%
Total Liabilities	303.23	215.03	41.02%

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Movements in Price Target

Company Name: Nigerian Breweries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
29-April-2020	NGN31.50	NGN47.00	NGN40.00	BUY	BUY
06-Aug-2020	NGN32.00	NGN40.00	NGN30.45	BUY	HOLD

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Company	Disclosure
Nigerian Breweries Plc.	

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