

GUINNESS Ends 2020FY on a Sour Note

Lockdowns Stifle On-Trade Sales

Guinness Nigeria Plc. (**GUINNESS**), in its recently released 2020FY financial scorecard (*Full Year is June*) reported a 20.63% slide in revenue to NGN104.38bn (vs. NGN131.50bn in 2019FY) as both domestic and export sales plunged by 17.93% and 72.39% respectively. In Q4:2020 standalone (*April – June*) which is typically one of the peak periods for sales, the brewer recorded a 72.23% downturn in sales to NGN8.36bn (vs. NGN30.10bn in Q4:2019). The performance mirrored the general slowdown in demand for alcoholic beverages, especially as *COVID-19* containment measures hampered sales from on-trade channels. Additionally, Management implemented stricter credit policies in Q4:2020, holding off on credit sales to suppliers - *a move which contributed to the dampening of sales performance*. With the exception of its Mainstream Spirits segment (*which grew by +15.00%*), sales performance was largely disappointing across **GUINNESS'** product portfolio (*Brand Guinness: -17.00%, Premium Spirits: -146.00%, Ready to Drink: -26.00%, APNADs: -25.00%, Lager: -45.00%*). *Looking into 2021FY, the odds seem stacked against the brewer. Recall that applicable excise duties on Spirits increased by c.14% to NGN2.00/cl in June from NGN1.75/cl, adding further pressure to topline. More so, the firm's Guinness stout brand which has been the leader in the stout segment over the years, now has INTBREW's Trophy stout to compete with (market feelers suggest that the latter is gaining popularity due to its affordable price). Finally, the company's decision to play in the Premium Lager segment of the market with the launch of Guinness Gold, has yet to make significant inroads into that space – a situation we are not optimistic would change in the near term. Hence, we forecast a 12.32% drop in 2021FY topline to NGN91.52bn (vs. NGN104.38bn in 2020FY).*

Impairment Losses Weigh on Bottom-Line Performance

In line with the drop in revenue in Q4:2020, cost of sales declined by 72.85% to NGN5.83bn in the same period. This set overall cost of sales for 2020FY at NGN71.05bn - 22.24% lower than in 2019FY. Consequently, cost to sales fell to 68.07% preserving gross margin at 31.93% (vs. 30.52% 2019FY). Operating expenses on the other hand rose to NGN32.86bn, largely due to a 45.47% YoY jump in administrative expenses. Management's decision to recognize an NGN11.72bn impairment on property, plant and equipment and a NGN2.09bn impairment on financial assets tipped **GUINNESS** into a NGN12.83bn operating loss position– *the first time in over a decade. According to Management, impaired assets constitute PPE that are idle, damaged, obsolete or associated with discontinued brands and are unable to generate future economic benefits and as such, we do not expect any further significant impairment charges in the near term.*

Following the revaluation of its foreign currency (FCY) denominated loan, recognition of lease liabilities and inflows from commercial paper issuance, total interest bearing liabilities climbed by 20.11% to NGN23.93bn. In the same vein, interest expenses edged up by 73.82% to NGN4.54bn. Ultimately, **GUINNESS** ended the 2020FY in a loss position, with loss before tax of NGN17.07bn (vs. *PBT of NGN7.10bn in 2019FY*) while loss after tax reduced to NGN12.58bn owing to a NGN4.49bn tax credit. *Consequently, Guinness declared no dividends in this financial year – a first in over a decade.* Given our downbeat revenue expectation and elevated finance costs, we expect earnings to be considerably impacted, however barring any impairment loss, we forecast a 2021FY PAT of NGN1.08bn.

Cash Balance Receives a Boost

GUINNESS' total cash position improved by 10.82% from the prior year to NGN5.27bn, supported by borrowings and a cut to CAPEX spending. Liquidity metrics however declined, with working capital pegging at -NGN6.63bn and current ratio at 0.89x (vs. NGN10.49bn and 1.21x respectively in 2019FY).

Outlook and Recommendation

For 2021FY, we project an EPS of NGN0.49 and target P.E of 30.00x. This yields a target price of NGN14.70 and an upside potential of 6.52% to its closing price of NGN13.80 on the 1st of September, 2020. Thus, we place a **HOLD** recommendation on the ticker.

Company	GUINNESS
Valuation	
EPS	-5.74
BVPS	33.34
P/E	-2.46x
P/BV	0.42x
Target PE	30.00x
Dec-2020 Exp. EPS	0.49
Dec 2020 Target price	14.70
Current Price	13.80
Up/Downside Potential	6.52%
Rating	HOLD
Key metrics	
RoAE	-15.52%
RoAA	-8.25%
Net margin	-12.05%
Asset Turnover	0.68
Leverage	1.97
Yr Hi	30.20
Yr Lo	13.00
YTD return	-52.91%
Beta	0.64
Adjusted Beta	0.76
Shares outstanding	2.19bn
Market cap [NGN]	30.99bn
Financial year end	June
Most Recent Period (MRP)	2020FY

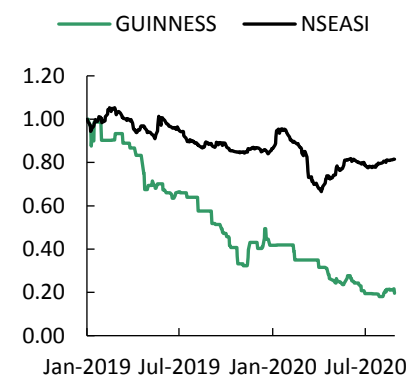


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	13.38
EPS						Max	16.10
Target PE		0.45	0.47	0.49	0.51	0.53	
	29.5x	13.38	13.91	14.46	15.00	15.57	
	29.8x	13.49	14.02	14.58	15.13	15.71	
	30.0x	13.60	14.14	14.70	15.26	15.84	
	30.3x	13.72	14.26	14.82	15.39	15.97	
	30.5x	13.83	14.38	14.95	15.51	16.10	

Financial Highlights (NGN billion) GUINNESS NIGERIA PLC 2020FY Audited Results			
Profit & Loss Account	2020FY	2019FY	y/y Growth
Revenue	104.38	131.50	-20.63%
Cost of Sales	71.05	91.37	-22.24%
Gross Profit	33.33	40.13	-16.94%
OPEX	32.86	31.61	3.94%
Operating Profit	-12.83	8.97	-243.12%
Net Finance Charges	-4.24	-1.86	-127.74%
Other Income	0.50	0.78	-35.64%
PBT	-17.07	7.10	-340.35%
PAT	-12.58	5.48	-329.38%
Balance Sheet	2020FY	2019FY	
PPE	88.92	100.80	-11.79%
Inventories	26.43	25.18	4.95%
Trade and other Receivables	18.72	26.02	-28.06%
Cash and Cash Equivalents	5.27	4.76	10.82%
Other Assets	4.81	4.04	19.18%
Total Assets	144.15	160.79	-10.35%
Shareholders' fund	73.04	89.06	-17.99%
Trade and Other Payables	31.94	31.92	0.07%
Total Borrowings	23.93	19.93	20.11%
Total Liabilities	71.11	71.73	-0.87%

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Target Price Estimate

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

Movements in Price Target

Company Name: Guinness Nigeria Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
12-Feb-2020	NGN30.30	NGN24.31	NGN31.79	HOLD	HOLD
08-May-2020	NGN18.30	NGN31.79	NGN24.38	HOLD	BUY
02-Sept-2020	NGN13.80	NGN24.38	NGN14.70	BUY	HOLD

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Company	Disclosure
Guinness Nigeria Plc.	

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