

## FX-Induced Cost Pressures Weigh on Topline Recovery

### Return of On-Trade Channels Support Domestic Sales

In its recently released Q1:2021 financial scorecard (*Full Year is June*), Guinness Nigeria Plc. (**GUINNESS**) reported an 11.62% YoY improvement in revenue to NGN30.02bn (vs. NGN26.90bn in Q1:2020) - driven by the company's Spirits, Guinness brand and Malt categories. Although the first quarter is characteristically the brewer's weakest, the gradual reopening of on-trade sales channels powered revenue growth. This is evidenced by the strong double-digit growth (+13.14% YoY) in domestic sales despite the sustained decline in export sales (-46.10% YoY). **While topline performance improved, particularly when viewed against the backdrop of the recently graduated excise duties on Spirits (+14.00% to NGN2.00/cl), we are not overly optimistic about sales prospects further into the year. The confidence that typically accompanies the second quarter (October–December: which is historically the strongest period for sales) might be dampened. This is owing to the fact that the support enjoyed from the wave of demand during festivities may be less robust this year, as people generally shun large social gatherings (i.e. parties, carnivals, concerts among others). Our position is reinforced by the growing severity of the second wave of coronavirus infections, which has necessitated fresh lockdowns across countries in Europe.** Hence, we maintain our initial forecast of a 12.32% dip in revenue to NGN91.52bn, from NGN104.38bn in 2020FY.

### Margins Strained by Uptick in Production Costs

The growth in production costs (+21.42% YoY to NGN23.01bn) – *induced by foreign exchange scarcity and graduated excise duties*, outpaced that of revenue in the review period, pushing cost to sales up to 76.65% (vs. 70.46% in Q1:2020). Expectedly, gross margin shrank to 23.35%, from 29.54% in Q1:2020. Operating expenses on the other hand provided some respite as the brewer streamlined its marketing spend to focus on key strategic brands and categories, such as Guinness and Spirits. In naira terms, **GUINNESS** cut down marketing and distribution expenses by NGN577.64mn from Q1:2020 levels. Nonetheless, operating profit came in lower at NGN0.59bn – translating to an operating margin of 1.95% (vs. 2.53% in Q1:2020). A 6.16% climb in finance costs was offset by a 96.88% surge in finance income, setting net finance charges to NGN0.90bn – *14.09% less than the NGN1.05bn paid in Q1:2020*. **GUINNESS** also benefitted from a stronger cash position, retirement of NGN7.30bn in letters of credit (LCs) and repayment of other short term loans, bringing total borrowings down to NGN13.28bn, from NGN22.80bn. Eventually, **GUINNESS** ended the period with a loss of NGN0.84bn. For 2021FY, we cut down our earlier PAT forecast from NGN1.08bn to NGN0.78bn – translating to a net margin of 85bps.

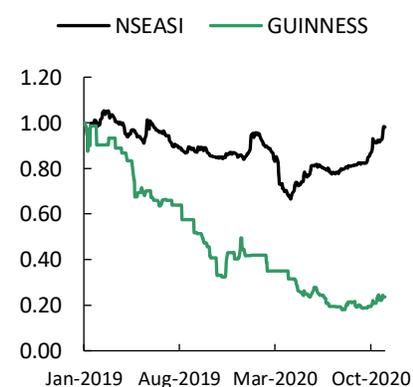
### Tighter Credit Policy and Receivables Collection Begin to Payoff

Management's decision to tighten the company's credit policy and focus on receivables collection may have started to pay dividends. At the end of the Q1:2021 period, trade receivables were down 66.48% to NGN6.27bn while cash generated from **GUINNESS'** core business operations improved from NGN2.62bn to NGN25.71bn – *much higher than net income for the period, and indicative of an improvement in earnings quality*. Return on equity (ROE) on the other hand remains firmly in the negative weighed down by negative net margin and poor asset turnover.

### Outlook and Recommendation

For 2021FY, we forecast an expected EPS of NGN0.35 and target P.E of 42.80x. This yields a target price of NGN14.98 and an downside potential of 9.49% to its closing price of NGN16.55 on the 3<sup>rd</sup> of November, 2020. Thus, we place a **HOLD** recommendation on the ticker.

| Company                  | GUINNESS     |
|--------------------------|--------------|
| <b>Valuation</b>         |              |
| Trailing EPS             | -5.96        |
| BVPS                     | 32.96        |
| P/E                      | -2.78x       |
| P/BV                     | 0.50x        |
| Target PE                | 42.80x       |
| Dec-2020 Exp. EPS        | 0.35         |
| Dec 2020 Target price    | <b>14.98</b> |
| Current Price            | 16.55        |
| Up/Downside Potential    | -9.49%       |
| <b>Rating</b>            | <b>HOLD</b>  |
| <b>Key metrics</b>       |              |
| RoAE                     | -17.97%      |
| RoAA                     | -9.24%       |
| Net margin               | -2.80%       |
| Asset Turnover           | 0.76         |
| Leverage                 | 1.92         |
| Yr Hi                    | 30.20        |
| Yr Lo                    | 13.00        |
| YTD return               | -43.43%      |
| Beta                     | 0.70         |
| Adjusted Beta            | 0.80         |
| Shares outstanding       | 2.19bn       |
| Market cap [NGN]         | 36.25bn      |
| Financial year end       | June         |
| Most Recent Period (MRP) | Q1:2021      |



**Chart 1: Sensitivity Analysis**

| Sensitivity Analysis of Dec-2020 Target Price to key model inputs |       |       |       |       |       | Min   | 13.70 |  |
|-------------------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|--|
|                                                                   |       |       |       |       |       | Max   | 16.33 |  |
|                                                                   |       | EPS   |       |       |       |       |       |  |
|                                                                   |       | 0.32  | 0.34  | 0.35  | 0.36  | 0.38  |       |  |
| Target PE                                                         | 42.3x | 13.70 | 14.24 | 14.81 | 15.37 | 15.95 |       |  |
|                                                                   | 42.6x | 13.78 | 14.33 | 14.89 | 15.46 | 16.05 |       |  |
|                                                                   | 42.8x | 13.86 | 14.41 | 14.98 | 15.55 | 16.14 |       |  |
|                                                                   | 43.1x | 13.94 | 14.49 | 15.07 | 15.64 | 16.23 |       |  |
|                                                                   | 43.3x | 14.03 | 14.58 | 15.16 | 15.73 | 16.33 |       |  |

**Financial Highlights (NGN billion) GUINNESS NIGERIA PLC Q1:2021 Unaudited Results**

| <i>Profit &amp; Loss Account</i> | Q1:2021       | Q1:2020       | y/y Growth    |
|----------------------------------|---------------|---------------|---------------|
| Revenue                          | 30.02         | 26.90         | 11.62%        |
| Cost of Sales                    | 23.01         | 18.95         | 21.42%        |
| Gross Profit                     | 7.01          | 7.94          | -11.76%       |
| OPEX                             | 6.63          | 7.38          | -10.17%       |
| Operating Profit                 | 0.59          | 0.68          | -13.98%       |
| Net Finance Charges              | -0.90         | -1.05         | -14.09%       |
| Other Income                     | 0.21          | 0.12          | 73.58%        |
| PBT                              | -0.32         | -0.37         | -14.29%       |
| PAT                              | -0.84         | -0.37         | -127.22%      |
| <i>Balance Sheet</i>             | Q1:2021       | 2020FY        |               |
| PPE                              | 87.87         | 88.92         | -1.18%        |
| Inventories                      | 20.68         | 26.43         | -21.75%       |
| Trade and other Receivables      | 6.27          | 18.72         | -66.48%       |
| Cash and Cash Equivalents        | 18.88         | 5.27          | 258.25%       |
| Other Assets                     | 4.65          | 4.81          | -3.43%        |
| <b>Total Assets</b>              | <b>138.35</b> | <b>144.15</b> | <b>-4.02%</b> |
| Shareholders' fund               | 72.20         | 73.04         | -1.15%        |
| Trade and Other Payables         | 36.74         | 31.94         | 15.02%        |
| Total Borrowings                 | 14.21         | 23.93         | -40.65%       |
| Total Liabilities                | 66.15         | 71.11         | -6.97%        |

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- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
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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               |
| 03-Nov-2020  | NGN16.55  | NGN14.70                 | NGN14.98             | HOLD                    | HOLD               |

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|-----------------------|------------|
| Guinness Nigeria Plc. |            |
|                       |            |

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