

## Modest Topline Growth Eroded by Higher Costs

### Recovery in Alcohol Demand Support Q3 Sales

Unlike the first half of the year (where revenue was down 11.68% YoY), International Breweries Plc. (INTBREW) posted a comparatively stronger third quarter performance (+22.79% YoY), which lifted overall revenue for 9M:2020 to NGN95.77bn – a 1.53% decline from 9M:2019. **The upsurge in sales during the quarter rode on the back of recovering demand for alcoholic beverages, particularly as on-trade sales channels came back on stream. Although we consider INTBREW's product-price mix as a source of competitive advantage, we envisage that alcohol demand would come in slower than is usually witnessed in the celebration ridden Q4 period. Our view is also informed by pressured disposable incomes and even weaker purchasing power as consumers continue to grapple with surging inflation. It is important to mention that consumers at the value end of the market which are naturally drawn to the price discounts that INTBREW offers may have been disproportionately affected by current economic realities.** As a result, we now expect Q4 sales to come in 14.50% lower and for 2020FY revenue to drop by 4.97% to NGN125.77bn (vs. NGN132.35bn in 2019FY).

### Rising Production Costs Still a Pressure Point

Double digit year on year growth (+26.01%) in cost of sales in the third quarter set overall cost to sales for 9M:2020 higher at 83.82% (vs. 79.29% in 9M:2019) – with depreciation and amortization expenses leading the charge. As at 9M:2020, INTBREW had incurred a cumulative NGN4.74bn YoY spike in depreciation and amortization charges. In contrast, operating expenses fell to NGN26.03bn, from NGN31.31bn as at 9M:2019 as the brewer rolled back its marketing campaigns in line with the trend established in H1:2020. Nonetheless, a combination of weak revenues and elevated production costs saw INTBREW's operating loss worsen by 45.26% YoY to NGN15.89bn (vs. NGN10.94bn in 9M:2019).

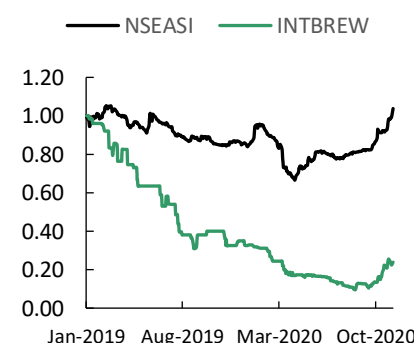
### Lower Finance Costs and a Tax Credit Support Bottom-Line

Higher finance income (at NGN1.35bn vs. NGN1.77mn as at 9M:2019) and lower finance costs (at NGN3.17bn vs. NGN13.13bn as at 9M:2019) reduced the burden from interest payments. At just NGN1.83bn, net finance charges for 9M:2020 showed a significant 86.09% YoY improvement over 9M:2019 levels. The brewer also benefitted from tax credit of NGN6.84bn which settled its loss after tax position at NGN10.88bn (vs. NGN16.45bn as at 9M:2019). For the rest of the year, we reiterate our expectation of the firm remaining in a loss position due mainly to lingering cost pressures.

### Outlook and Recommendation

As we highlighted in H1:2020, our bearish outlook for INTBREW is informed by pre-existing industry headwinds (intense rivalry, excise duties and soft consumer spending) as well as the impact of COVID-19 on sales. For 2020FY, we have revised our EBITDA margin estimate to 6.50% (NGN8.18bn) and cut our target EV/EBITDA multiple to 20.70x. This yields a target price of NGN4.05 – presenting a downside potential of 41.30% when compared to its closing price on 9<sup>th</sup> November, 2020. Therefore, we place a **SELL** rating on the ticker.

Company	INTBREW
<b>Valuation</b>	
Trailing EPS	-0.83
BVPS	5.58
P/E	-8.34x
P/BV	1.24x
Target EV/EBITDA	20.70
Dec-2020 EBITDA	
NGN	8.18bn
Dec 2020 Target price	4.05
Current Price	6.90
Up/Downside Potential	-41.30%
<b>Ratings</b>	<b>SELL</b>
<b>Key metrics</b>	
RoAE	-28.22%
RoAA	-6.07%
Net margin	-11.36%
Asset Turnover	0.36
Leverage	2.44
<b>Share/Share price Statistics</b>	
Yr Hi	9.50
Yr Lo	2.75
YTD return	-27.37%
Beta	0.94
Adjusted Beta	0.96
Shares outstanding	26.86bn
Market cap [NGN]	185.35bn
Financial year end	December
Most Recent Period (MRP)	9M:2020



## Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	3.55
Target EBITDA/Share (NGN)						Max	4.56
Target EV/EBITDA		0.29	0.30	0.30	0.31	0.32	
	20.08x	3.55	3.70	3.86	4.01	4.16	
	20.39x	3.64	3.80	3.95	4.11	4.26	
	20.70x	3.73	3.89	4.05	4.20	4.36	
	21.01x	3.82	3.98	4.14	4.30	4.46	
	21.32x	3.91	4.07	4.24	4.40	4.56	

### Financial Highlights (NGN billion) INTBREW PLC 9M:2020 Unaudited Financial Results

<b>Profit &amp; Loss Account</b>	<b>9M:2020</b>	<b>9M:2019</b>	<b>y/y Growth</b>
Revenue	95.77	97.26	-1.53%
Cost of Sales	80.27	77.12	4.09%
Gross Profit	15.49	20.14	-23.08%
OPEX	26.03	31.31	-16.87%
Operating Profit	(15.89)	(10.94)	-45.26%
Other Income/(Expense)	(5.36)	0.23	N/A
Net Finance Charges	(1.83)	(13.14)	86.09%
PBT	(17.72)	(24.08)	26.40%
PAT	(10.88)	(16.45)	33.86%
<b>Balance Sheet</b>	<b>9M:2020</b>	<b>FY: 2019</b>	
PPE	260.19	271.16	-4.05%
Inventories	20.75	21.98	-5.57%
Trade and Other Receivables	19.61	27.80	-29.47%
Cash and cash equivalents	46.79	31.81	47.10%
Other Assets	19.16	12.40	54.49%
<b>Total Assets</b>	<b>366.50</b>	<b>365.15</b>	<b>0.37%</b>
Shareholders' fund	150.02	7.46	N/A
Trade and Other Payables	93.71	88.19	6.27%
Total Borrowings	107.32	263.64	-59.29%
Total Liabilities	216.48	357.68	-39.48%

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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.

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**Company Name:** International Breweries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
03-August-2020	3.30	4.27	2.90	SELL	SELL
10-Nov-2020	6.90	2.90	4.05	SELL	SELL

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Company	Disclosure
International Breweries Plc.	

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