

NB Records Sharp Rebound in Sales

Q3 Sales Does Better Than Expected

Nigerian Breweries Plc. (**NB**) benefitted from a sharp rebound in third quarter sales despite having a slow start to the year, with revenues down by c. 11% YoY as at H1:2020. In Q3:2020 however, revenue jumped by 25.56% to NGN82.22bn from NGN65.49bn in 9M:2019 – this presents the highest third quarter revenue in over five years, beating its 5-year third quarter average of NGN66.63bn. This comes as a positive surprise as we had envisaged poorer sales especially because Q3 is characteristically the worst quarter for the brewers. Like that of its competitors (**GUINNESS** and **INTBREW**), we opine that **NB's** revenue growth in Q3 fed off from the gradual resumption of on-trade sales channels (*bars, restaurants and clubs*). Cumulatively however, at NGN234.04bn, 9M:2020 revenue is still 70pbs less than the NGN235.68bn recorded in the corresponding 9M:2019 period. **In our Q2:2020 Earnings Update, we identified the restriction of large social gatherings, a general tilt towards more essential consumption and poor reception to last year's price increases as downside risk factors - all of which remain on the horizon and informs our expectation of NB's performance in the next quarter. In addition, a lot would depend on how developments around the second wave of the coronavirus infections take shape and may adversely impact festivity-driven demand for alcoholic beverages in Q4.** After carefully considering all these factors and adjusting for Q3's result, we now project 2020FY revenue to come in at NGN320.49bn (vs. NGN323.01bn in 2019FY).

Production and Finance Costs Pressure Profitability

During the period under review (Q3:2020), cost of sales firmed up to NGN51.42bn (+25.53% YoY), bucking the trend established in the first two quarters of the year. **A sharp increase in raw materials and consumable expenses to NGN93.48bn (vs. NGN86.63bn last year) brought cost of sales for 9M:2020 to NGN144.09bn – up 3.29% from 9M:2019. This dragged gross margin to 38.43% in 9M:2020 (vs. 40.81% in 9M:2019). On the flipside, operating expenses dipped by 5.20% solely on account of a slowdown in marketing and distribution expenses.** Nonetheless, operating margin contracted to 9.61% in 9M:2020 (vs. 10.68% in 9M:2019). Finance costs (*on interest bearing liabilities of NGN133.54bn*) added another layer of pressure on profitability as both finance income (-5.30% to NGN0.22bn) and interest expense (+43.18% to NGN11.79bn) trod opposite directions. Profit Before Tax (PBT), at NGN10.98bn came in 36.26% lower than in the corresponding 9M:2019 period. After tax payments (*effective tax rate: 36.29% vs. 28.42% in 9M:2019*), Profit After Tax (PAT) worsened by 43.47% to NGN6.94bn – representing a dip in net margin to 2.97%, from 5.21% as at 9M:2019. **Earnings quality (operating cashflow to net income) showed marked improvement – climbing from 0.08x as at 9M:2019 to 5.28x as at 9M:2020, as operating cashflow grew to NGN36.64bn from NGN0.99bn.**

Heineken B. V. Consolidates Equity Stake in NB

NB's parent company, **Heineken N. V.**, through a series of share purchases increased its equity stake in the company from 55.95% (as at Q2:2020) to 56.13% (as at Q3:2020). This demand for **NB** shares helped to bid up the company's share price from NGN32 per share as at mid-August to about NGN50 per share in September, even before the broader bullish market phase kicked in.

Dividend Information, Recommendation and Outlook

NB sustained its dividend paying culture, declaring an interim dividend of NGN0.25k. This implies a dividend yield of 0.48% to its closing price on declaration date. For 2020FY, we reviewed our expected EPS to NGN1.17 and applied a P/E ratio of 40.75x. This yields a target price of NGN47.68 (a downside potential of 8.31% relative to its closing price as at 2nd November, 2020). Hence, we place a **HOLD** recommendation on the counter.

Company	NB
Valuation	
Trailing EPS	1.35
BVPS	20.29
P/E	38.61x
P/BV	2.56x
Target PE	40.75x
Dec-2020 Exp. EPS	1.17
Dec 2020 Target price	47.68
Current Price	52.00
Up/Downside Potential	-8.31%
Ratings	HOLD
Key metrics	
ROAE	6.53%
ROAA	2.53%
Net margin	2.97%
Asset Turnover	0.76
Leverage	2.88
Yr Hi	59.00
Yr Lo	22.00
YTD return	-11.86%
Beta	1.44
Adjusted Beta	1.29
Shares outstanding	8.00bn
Market cap [NGN]	415.84bn
Financial year end	December
Most Recent Period (MRP)	9M:2020

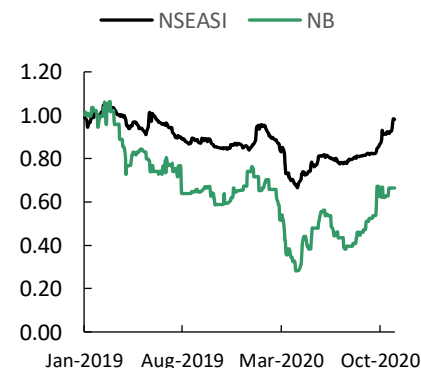


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	43.58
						Max	52.00
						EPS	
		1.08	1.13	1.17	1.21	1.26	
Target PE	40.3x	43.58	45.30	47.09	48.88	50.74	
	40.5x	43.85	45.58	47.39	49.19	51.05	
	40.8x	44.12	45.87	47.68	49.49	51.37	
	41.0x	44.39	46.15	47.97	49.79	51.68	
	41.3x	44.66	46.43	48.26	50.10	52.00	

Financial Highlights (NGN billion) NIGERIAN BREWERIES PLC 9M:2020 Results			
<i>Profit & Loss Account</i>	9M:2020	9M:2019	y/y Growth
Revenue	234.04	235.68	-0.70%
Cost of Sales	144.09	139.51	3.29%
Gross Profit	89.95	96.17	-6.47%
OPEX	68.04	71.78	-5.20%
Operating Profit	22.49	25.17	-10.66%
Other Income	0.59	0.78	-24.43%
Net Finance Costs	11.51	7.95	44.80%
PBT	10.98	17.22	-36.26%
PAT	6.94	12.28	-43.47%
<i>Balance Sheet</i>	9M:2020	FY: 2019	
Property, Plant and Equipment	199.30	201.91	-1.29%
Inventories	42.91	38.52	11.39%
Trade and other Receivables	24.06	21.31	12.92%
Cash and Cash Equivalents	53.74	6.36	744.87%
Other Assets	147.22	114.68	28.37%
Total Assets	467.23	382.78	22.06%
Shareholders' fund	162.29	167.75	-3.26%
Trade and Other Payables	111.03	102.78	8.02%
Tax Liabilities	18.47	23.17	-20.28%
Total Liabilities	304.94	215.03	41.81%

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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
30-Oct-2020	NGN52.00	NGN30.45	NGN47.68	HOLD	HOLD

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Nigerian Breweries Plc.	

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