

Chasing Growth in Spirits

Management Reiterates Commitment to Strategy

For most investors, **GUINNESS'** second quarter results (*Full Year is June*) still leaves a lot to be desired from the brewer, particularly after the underwhelming end to the last financial year. Cumulatively, H1:2021 revenue is up 5.89% YoY to NGN72.35bn, building on the recovery recorded in the prior quarter (*revenue grew 11.62% YoY*) when restrictions on on-trade sales channels were lifted. *On a standalone basis however, Q2 numbers look less encouraging, considering that support came from price upward adjustments on selected Spirits brands to cope with higher excise duties and the effect of festivity-associated demand (October–December is historically GUINNESS' strongest sales period). Adjusting for both factors leaves us with a clearer picture of the brewer's relatively inferior performance. Even so, management has reiterated commitment to its strategy of focusing investments around its high margin spirits portfolio (including International premium spirits and mainstream spirits) – which now jointly accounts for c. 25% of overall revenue (vs. 15% as at 2018FY). With the exception of Brand Guinness, sales growth was positive across the brewers' product categories (Brand Guinness: -1%, Mainstream spirits: +46%, Premium Spirits: +12%, Malts: +5% and RTDs: +1%). Although we remain concerned about topline growth sustainability, over H2:2021 we foresee slightly better numbers (due to a lower base from H1:2020). Thus, we have reviewed our revenue forecast upwards to NGN109.59bn - a 5.00% growth from 2020FY levels.*

Cost to Sales now at 74.31%

Production costs increased by NGN30.75bn in Q2:2021, pushing overall costs to NGN53.77bn and cost to sales up to 74.31% (vs. 70.95% in H1:2020 and much higher than its 6-year historical average of 62.97%). Gross margins bore the brunt of a faster rise in costs relative to sales, tumbling by 337bps year on year to 25.69%. Although operating expenses provided some respite, thanks to lower marketing (-4.14% YoY) and distribution (-13.17% YoY) expenses, net finance charges and a higher tax bill (*including a one-off tax charge*) dragged PAT lower. While finance income was up 16.34% to NGN335.28mn, the 1.49x YoY hike in net finance costs to N2.42bn was driven largely by a 44.09% jump in finance costs to NGN2.76bn (*owing to remeasurement of FCY balances*). *Following retirement of Letters of credit and short-term loans in the prior quarter, total interest-bearing liabilities dropped even further to N11.65bn (from NGN13.28bn in Q1:2021 and NGN22.80bn in 2020FY). These interest-bearing liabilities are now made up of related party loans of NGN8.99bn (maturing in May 2021) and NGN2.66bn worth of commercial papers.*

Though the brewer ended the quarter with NGN524.22mn in profits, losses from the preceding quarter dragged PAT for H1:2021 to negative NGN317.42mn (vs. NGN1.32bn in profits in H1:2020). *For 2021FY, we forecast bottom-line would settle at negative NGN795.48mn.*

Liquidity Ratios Show Mild Improvement

GUINNESS' working capital position remained weak at the end of the period, with short-term liabilities outweighing liquid assets by NGN4.82bn. However, current and quick ratios improved from previous levels, ticking up to 0.93x and 0.61x (vs. 0.89x and 0.40x respectively), reflecting slightly stronger growth in current assets (vs. *current liabilities*) and improved cover for its short term obligations, even as management continues to pursue tighter credit terms and improved receivables collection.

Outlook and Recommendation

For 2021FY, we forecast EBITDA would come in at NGN14.25bn and maintain a target EV/EBITDA of 1.24x. We arrived at a price target of NGN16.99 - an implied downside of 10.58% to yesterday's (4th February 2021) closing price. Thus, we place a **SELL** rating on the counter.

Company	GUINNESS
Valuation	
Trailing EPS	-6.49
BVPS	33.20
P/E	-2.93x
P/BV	0.57x
Target EV/EBITDA	1.24x
Dec-2021 Exp. EBITDA (NGN)	14.25bn
Dec 2021 Target price	16.99
Current Price	19.00
Up/Downside Potential	-10.58%
Rating	SELL
Key metrics	
RoAE	-19.50%
RoAA	-9.71%
Net margin	-0.44%
Asset Turnover	0.74x
Leverage	2.04x
Yr Hi	19.20
Yr Lo	17.65
YTD return	0%
Beta	0.81
Adjusted Beta	0.87
Shares outstanding	NGN2.19bn
Market cap [NGN]	NGN41.62bn
Financial year end	June
Most Recent Period (MRP)	Q2:2021

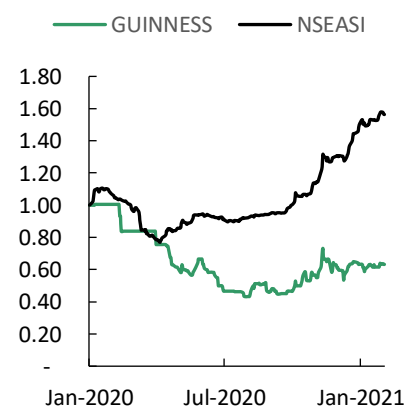


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	16.36
EBITDA per share						Max	17.64
		6.18	6.34	6.50	6.67	6.83	
Target EV/EBITDA	1.20	16.36	16.55	16.75	16.94	17.14	
	1.22	16.47	16.67	16.87	17.07	17.26	
	1.24	16.59	16.79	16.99	17.19	17.39	
	1.26	16.70	16.90	17.11	17.31	17.52	
	1.27	16.81	17.02	17.23	17.44	17.64	

Financial Highlights (NGN billion) GUINNESS NIGERIA PLC H1:2021 Unaudited Results

<i>Profit & Loss Account</i>	Q2:2021	Q2:2020	y/y Growth
Revenue	72.35	68.33	5.89%
Cost of Sales	53.77	48.48	10.91%
Gross Profit	18.59	19.85	-6.38%
OPEX	15.57	16.57	-6.07%
Operating Profit	3.72	3.56	4.38%
Net Finance Charges	-2.42	-1.63	-49.01%
Other Income	0.70	0.28	147.70%
PBT	1.29	1.93	-33.13%
PAT	-0.32	1.32	-124.13%
<i>Balance Sheet</i>	Q2:2021	2020FY	
PPE	86.96	88.92	-2.20%
Inventories	17.87	26.43	-32.39%
Trade and other Receivables	8.30	18.72	-55.68%
Cash and Cash Equivalents	31.58	5.27	499.19%
Other Assets	3.82	4.81	-20.63%
Total Assets	148.53	144.15	3.04%
Shareholders' fund	72.72	73.04	-0.43%
Trade and Other Payables	49.11	31.94	53.72%
Total Borrowings	12.07	23.93	-49.59%
Total Liabilities	75.81	71.11	6.61%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
olatunjifaniyi@meristemng.com (+234 803 4463118)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 394 2967)
emekaikpechukwu@meristemng.com (+234 803 791 5731)
info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
blissingogwuche@meristemng.com (+234 706 896 5173)
car@meristemng.com

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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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
05-Feb-2021	NGN19.00	NGN14.98	NGN16.99	HOLD	SELL

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Company	Disclosure
Guinness Nigeria Plc.	

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