MERISTEM

Nigeria | Equities | NB | 2020FY

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Resilient Finish to an otherwise Tumultous Year

As Positive H2 Surprise Supports Full Year Revenue

Nigerian Breweries Plc. (**NB**) beat our 2020FY revenue forecast by c. 5% to deliver its first year on year growth since 2017FY. In what was an especially challenging year for the brewers (*with supply chain disruption, widespread lockdowns, and social restrictions in place for most of the year*), the company's performance demonstrates its resilience. Full year revenue settled at NGN337.05bn (*vs. our forecast of NGN320.49bn and NGN323.01bn from last year*) - supported by a gradual return of on-trade points of sale in the second half of the year, festivity driven demand in Q4:2020, and price taking decisions on selected premium brands (*including Heineken*). The top brewer also had a busy year in 2020, with new product launches (*including sugar free Amstel Malta, and Desperados; a tequila flavored beer introduced in December 2020*), introduction of variants of older products (*Maltina Pineapple and Vanilla*) and innovation around product packaging. **While Management's strategic focus on growing its premium segment (*which caters to less price sensitive consumers*) and driving relevant product innovation (*to capture value from changing consumer tastes*) holds some promise for the brewer in the long term, we see immediate support coming from NB's inclination to implement price increases where possible, and our expectation of better alcohol demand over 2021. Hence, for 2021FY, we forecast a 3.20% growth in topline to NGN347.83bn**.

Net Margin Drops to 2.19%

Raw material and consumable expenses, which makes up the bulk of production costs, rose by 17.01% year on year to NGN143.39bn – driven by the combined impact of the naira devaluation, supply chain disruption and spiraling inflation. This pushed cost of sales higher (*+13.87% YoY to NGN218.36bn*) and as a result, gross margin shrank to 35.22% (*vs. 40.63% in 2019FY*). OPEX savings, however provided the brewer some support, as a slowdown in **NB**'s marketing and promotional campaigns (*likely occasioned by lockdowns and social restrictions*) led to a 7.35% YoY moderation in operating expense. Notwithstanding, operating profit declined by 15.91% YoY to NGN29.61bn.

Net finance charges grew by 52.09% YoY to NGN18.03bn, propped by a net foreign exchange loss of NGN4.77bn, and significantly higher interest expense on lease liabilities - NGN4.17bn (*vs. NGN19.70mn in 2019FY*). Rising finance costs, as well as higher effective tax rate of 36.35% strained the brewers' earnings with PBT and PAT tumbling by 50.43% and 54.25% YoY respectively. Profit after tax settled at NGN7.37bn, with implied EPS of NGN0.92/share and net margin of 2.19% (*vs. 4.99% in 2019FY*).

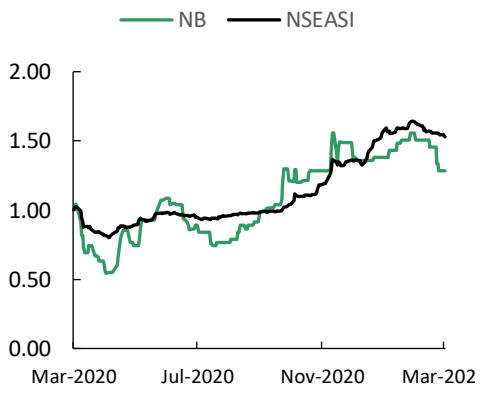
Lenient Credit Terms Behind Improved Cashflows

NB's operating cashflow surged by 114% YoY to NGN83.27bn at the end of 2020FY as the brewer held off on settling its creditors, accumulating trade and other payables to the tune of NGN50.30bn – most of which it owes its parent company (*according to Management*). **We see the lenient credit terms extended by its parent company as supportive of NB's liquidity position in the near term, as it navigates the challenges posed by the coronavirus pandemic**.

Dividend Information

Consistent with its 100% dividend payout trend, the company is proposing total dividend of NGN0.94k (*interim dividend: NGN0.25k/share; final dividend: NGN0.69k/share*). The brewer is also recommending a right of election to qualifying shareholders to receive scrip dividends instead of cash. A move which we believe considers the difficulty of repatriating cash dividends by foreign shareholders due to lack of FX supply.

Company	**NB**
Valuation	
EPS	NGN0.92
BVPS	NGN20.16
P/E	54.27x
P/BV	2.48x
Target PE	60.00x
Dec-2021 Exp. EPS	NGN0.76
Dec 2021 Target price	**NGN45.60**
Current Price	NGN50.00
Up/Downside Potential	-8.80%
Ratings	**HOLD**
Key metrics	
RoAE	4.48%
RoAA	1.78%
Net Margin	2.19%
Asset Turnover	0.81
Leverage	2.77x
Share/Share Price Statistics	
Yr Hi	NGN63.00
Yr Lo	NGN52.00
YTD return	-7.14%
Beta	1.34
Adjusted Beta	1.23
Shares outstanding	8.00bn
Market cap [NGN]	415.84bn
Financial year end	December
Most Recent Period (MRP)	2020FY



NSE: NB I Bloomberg: NB:NL I Reuters: NB.LG

Recommendation and Outlook

We have revised our projected **2021FY EPS** to **NGN0.76** and maintained our **Target PE** to 60.00**x**. This yields a target price of **NGN45.60,** and implied downside of **8.80%** based on the closing price on 4th March 2021. Hence, we rate the ticker a **HOLD.**

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	41.85
		EPS					Max	56.09
		0.70	**0.73**	**0.76**	**0.79**	**0.82**		
Target PE	**59.5x**	41.85	43.50	45.22	46.94	48.72		
	59.8x	42.02	43.68	45.41	47.14	48.93		
	60.0x	42.20	43.87	**45.60**	47.33	49.13		
	60.3x	42.38	44.05	45.79	47.53	49.34		
	60.5x	42.55	44.23	45.98	47.73	49.54		

Financial Highlights (NGN billion) Nigerian Breweries Plc. 2020FY			
Profit & Loss Account	**2020FY**	**2019FY**	**y/y Growth**
Revenue	337.05	323.01	**4.35%**
Cost of Sales	218.36	191.76	**13.87%**
Gross Profit	118.69	131.25	**-9.57%**
OPEX	89.91	97.05	**-7.35%**
Operating Profit	29.61	35.21	**-15.91%**
Other Income	0.83	1.01	**-17.63%**
Net Finance Costs	18.03	11.85	**52.09%**
PBT	11.58	23.35	**-50.43%**
PAT	7.37	16.11	**-54.25%**
Balance Sheet	**2020FY**	**2019FY**	
Property, Plant and Equipment	213.41	201.91	**5.70%**
Inventories	36.09	38.52	**-6.32%**
Trade and other Receivables	11.42	21.31	**-46.42%**
Cash and Cash Equivalents	30.37	6.36	**377.43%**
Other Assets	154.57	114.68	**34.78%**
Total Assets	**445.86**	**382.78**	**16.48%**
Shareholders' fund	161.18	167.75	**-3.92%**
Trade and Other Payables	139.20	102.78	**35.43%**
Tax Liabilities	17.85	23.17	**-22.95%**
Total Liabilities	284.68	215.03	**32.39%**

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Target Price Estimate

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BUY: Target Price of the stock is above the current market price by at least 1**0 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: Nigerian Breweries Plc.

Date	Price (NGN)	Previous Target Price (NGN)	New Target Price (NGN)	Previous Recommendation	New Recommendation
04-Mar-21	50.00	60.50	45.60	**HOLD**	**HOLD**

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