

FX-linked Losses Overshadow Cost Savings

Revenue Growth Sustained

International Breweries Plc. (**INTBREW**) managed to sustain its upward revenue trajectory, after a shaky start to the 2020 financial year. The brewer reported a 3.35% YoY growth in revenue to NGN136.79bn, overcoming a challenging first half (during which revenue was down 11.68% YoY due to social restrictions and absence of on-trade sales). A gradual reopening of on-trade channels and festivity driven demand fueled the rebound in third and fourth quarter sales (up 22.79% and 16.90%YoY respectively), resulting in cumulative year on year growth. **For 2021FY, our expectation for revenue growth is anchored on a more robust recovery of on-trade sales (which is responsible for almost 70% of total industry sales) as vaccination efforts in the country gather momentum. This should support alcohol volumes over 2021FY, which we forecast would come in higher, due mainly to a lower base from last year. On product pricing, although there has been no clear guidance from Management, we expect that the brewer would be less willing to increase prices (relative to its main competitors) in view of its price discount strategy. We however do not rule out several marginal increases over the course of the year to cope with inflationary pressure and support margins. After considering all the above, we project a 7.44% YoY increase in revenue to NGN146.96bn (vs. 2020FY: NGN136.79bn).**

Lower Finance Costs Relieve Bottomline Pressure

NGN4.70bn in cost savings on material consumed and allocated overhead (*compared to last year*) was the major driver of the 323bps contraction in cost to sales. Cost to sales fell to 77.72% (*from 80.95% in 2019FY*), which implies an increase in gross margin to 22.28% (*from 19.05% in the prior year*). Operating expenses also provided support as marketing and distribution expenses declined by 20.47% YoY, pushing OPEX down to NGN40.57bn. **Nevertheless, a combination of net FX losses (NGN14.21bn), write-off on PPE disposal (totaling NGN4.35bn), and impairment on financial assets (NGN1.45bn) tipped the brewer into an operating loss position.**

Meanwhile, finance charges proved to be one of the bright spots as net finance costs crashed to NGN1.68bn, from NGN15.18bn in the previous year. This followed from the brewer's successful rights issue (through which c. NGN162.78bn was raised and applied to paying off its long-term obligations). With NGN110.67bn in debt (as at 2020FY), we expect the brewer's appetite for taking on new debt to be limited over 2021FY. This might in turn curtail CAPEX spending, which dropped to NGN17.73bn in 2020FY, implying a Capex intensity of 12.97% (vs. 42.95% in 2019FY). We have modelled a slight increase in capital expenditure to NGN19.11bn for 2021FY (Capex intensity: 13.00%).

INTBREW ended the year in yet another loss position, howbeit better off than in the prior year. Loss before tax improved to NGN24.87bn (from NGN36.17bn in 2019FY), while loss after tax settled at NGN12.37bn (up 55.51% YoY) owing to a tax credit of NGN12.51bn. **Our 2021FY estimates imply the brewer would end the current year in a loss position, with expectations for a return to profitability (and possible resumption of dividend payments) now further out in 2023E.**

Recommendation

In arriving at our 2021FY target price, we projected an **EBITDA** of NGN23.37bn and a target **EV/EBITDA** of 8.90x. After adjusting for net debt of NGN59.86bn, we arrived at a target price of NGN5.51. This implies a downside potential of 3.27% from its current price as at 31st March 2021, thus we recommend a **HOLD**.

Company	INTBREW
Valuation	
EBITDA [NGN]	21.34bn
EV/EBITDA	9.98x
Net Debt [NGN]	59.86bn
P/BV	1.01x
Target EV/EBITDA	8.90x
Exp. EBITDA [NGN]	23.37bn
Dec 2021 Target price	NGN5.51
Current Price	NGN5.70
Up/Downside Potential	-3.27%
Ratings	HOLD
Key metrics	
RoAE	-15.53%
RoAA	-3.35%
Net Margin	-9.04%
Asset Turnover	0.37
Leverage	2.46x
Share/Share Price Statistics	
Yr Hi	NGN7.07
Yr Lo	NGN4.55
YTD return	-4.20%
Beta	0.81
Adjusted Beta	0.87
Shares outstanding	26.86bn
Market cap [NGN]	153.11bn
Financial year end	December
Most Recent Period [MRP]	2020FY

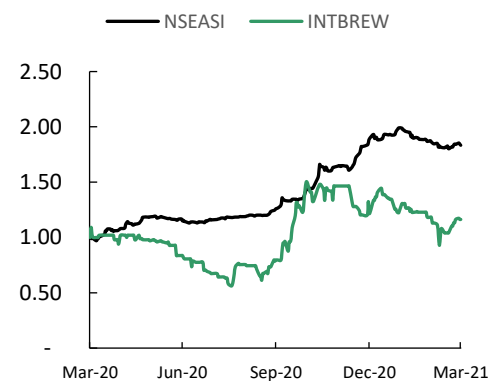


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	4.91	
						Max	6.14	
		Target EBITDA/Share (NGN)						
		0.83	0.85	0.87	0.89	0.91		
Target EV/EBITA	8.63x	4.91	5.09	5.28	5.47	5.66		
	8.77x	5.02	5.21	5.40	5.59	5.78		
	8.90x	5.13	5.32	5.51	5.71	5.90		
	9.03x	5.24	5.43	5.63	5.83	6.02		
	9.17x	5.35	5.55	5.75	5.95	6.14		

Financial Highlights (NGN billion) INTBREW Plc. 2020FY Audited Results

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	136.79	132.35	3.35%
Cost of Sales	106.32	107.14	-0.77%
Gross Profit	30.47	25.21	20.90%
OPEX	40.57	42.14	-3.71%
Operating Profit	(23.20)	(20.98)	-10.54%
Other Income	2.71	(0.66)	508.73%
Net Finance Charges	(1.68)	(15.18)	88.95%
PBT	(24.87)	(36.17)	31.23%
PAT	(12.37)	(27.79)	55.51%
<i>Balance Sheet</i>	2020FY	2019FY	
Property, Plant and Equipment	253.68	271.16	-6.44%
Inventories	14.19	21.98	-35.42%
Trade and other Receivables	15.79	27.80	-43.21%
Cash and Cash Equivalents	33.48	31.81	5.25%
Other Assets	55.50	12.40	347.57%
Total Assets	372.65	365.15	2.05%
Shareholders' fund	151.73	7.46	1932.96%
Trade and Other Payables	101.61	88.19	15.22%
Total Borrowings	110.67	263.64	-58.02%
Total Liabilities	220.91	357.68	-38.24%

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Movements in Price Target

Company Name: International Breweries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
31-Mar-2021	5.70	4.05	5.51	SELL	HOLD

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