

Upward Price Revision Props Q2 Performance

Q2 Revenue Hits Record High

Usually, the period of October to December is **GUINNESS's** strongest period for sales, mainly due to festivity related demand. In line with this trend, the company reported significant double-digit (+45.67%YoY) growth in its Q2:2022 financial period (full year-end is June). As a result, revenue for the period stood at NGN61.66bn from NGN42.33bn in Q2:2021 – *representing the highest second-quarter performance on record*. The impressive topline performance was mainly due to the upward price revision on most of its products, improved distribution channel, the launch of new products variants (Orijin Tigernut & Ginger), and additional Orijin franchise. As a result, domestic (+51.04%YoY) and export sales (+32.44%YoY) increased substantially to NGN108.03bn and NGN1.09bn in H1:2022 (from NGN71.53bn and NGN0.82bn in H1:2021), respectively. Cumulatively, H1:2022 revenue rose by 50.83%YoY from NGN72.35bn in H1:2021 to NGN109.12bn. **We expect its current product pricing regime to be sustained, especially for the preservation of profitability margins. For 2022 financial year, we expect supportive volume demand from both the off-trade and on-trade channels in the absence of shocks (of the kind seen in 2020) to the macroeconomy. On the supply side, improved route to market and product innovation are the tailwinds we have identified. However, a key downside risk remains the impact of the current inflationary environment on consumer wallets. We have thus projected a 35.00%YoY increase in revenue to NGN216.56bn in 2022FY (vs. NGN160.42bn in 2021FY).**

Increase in Topline Supports Margin

During the period, production cost spiked by 35.06%YoY to NGN72.62bn in H1:2022 (from NGN53.77bn in H1:2021). However, given that the increase in revenue was steeper, there was a marginal improvement in cost to sales ratio (to 66.54% in Q2:2022 vs. 74.31% in H1:2021). On the other hand, operating expenses spiked by 56.04%YoY due to the increase in administrative (+12.14%), marketing (+91.15%) and distribution (+59.28%) expenses. **In our view, the rise in marketing and distribution expense shows the management's effort to expand its current distribution channel and improve the route to market strategy and customer reach.** Nonetheless, the increase in revenue provided some respite as the operating margin improved to 12.46% in H1:2022 (from 5.14% in H1:2021).

The repayment of NGN7.10bn related party loan contributed to the decline (-54.56%YoY) in finance cost to NGN1.25bn in H1:2022 from NGN2.77bn in H1:2021. On the other hand, finance income soared by 88.83%YoY (from NGN335.28mn in H1:2021 to NGN633.13mn in H1:2022) due to the increase in interest income from the company's existing financial asset. Ultimately, profit after tax rebounded from its loss position to NGN8.82bn in H1:2022 (from **-NGN0.32bn** in H1:2021)- representing the highest H1 earnings on the brewer's record. **Therefore, supported by our expectation for topline expansion, we expect 2022FY's earnings to improve to NGN12.22bn (from NGN1.26bn in 2021FY), implying a net margin of 5.64% from 0.78% in 2021FY. We expect GUINNESS to continue on the path of profitability as it deepens its product portfolio and in the absence of an economic downturn**

GUINNESS Should Maintain Dividend Policy

At 92.10x (vs. 4-year average of 7.07x recorded between 2017FY and 2020FY), the company's free cash flow yield makes a case for dividend payment. The company has in the past maintained a history of dividend payments (except in 2020 when the company made a loss) with an average yield of 1.81%. For the year, we expect a dividend payment of NGN3.90, representing a yield of 5.57% based on our 2022FY target price of NGN70.31.

Recommendation

We project a 2022FY expected EPS of NGN5.37 and a target PE of 13.09x. This yields a target price of NGN70.31 and an implied 0.37% upside potential based on the closing price on February 22nd, 2022. Hence, we rate the ticker a HOLD.

Company	GUINNESS
Valuation	
Trailing EPS	4.46
BVPS	38.17
P/E	15.72x
P/BV	1.84x
Target PE	13.09x
Dec-2022 Exp. EPS	5.37
Dec 2022 Target price	70.31
Current Price	70.05
Up/Downside Potential	+0.37%
Ratings	HOLD
Key metrics- Trailing	
ROE	11.67%
ROA	4.89%
Net margin	8.08%
Asset Turnover	1.07
Leverage	2.39
Yr Hi	74
Yr Lo	39
YTD return	-47.30%
Beta	0.53
Adjusted Beta	0.69
Shares outstanding	2.19bn
Market cap [NGN]	153bn
Financial year end	June
Most Recent Period	H1:2022

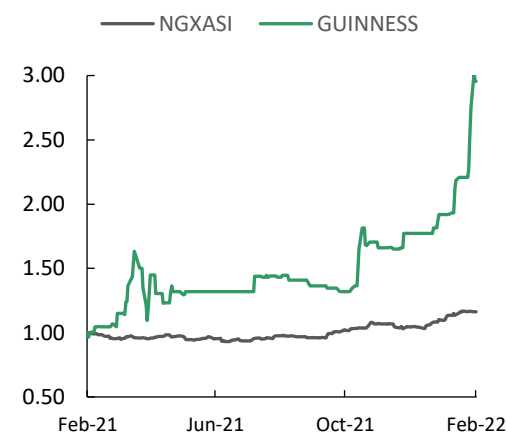


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs							Min	66.15
							Max	74.59
EPS								
	70.31	5.21	5.29	5.37	5.45	5.53		
Target PE	12.70x	66.15	67.18	68.20	69.22	70.24		
	12.89x	67.18	68.21	69.25	70.29	71.33		
	13.09x	68.20	69.25	70.31	71.36	72.42		
	13.29x	69.22	70.29	71.36	72.43	73.50		
	13.48x	70.24	71.33	72.42	73.50	74.59		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2021	H1:2022	2022F	2023F	2024F	2025F	2026F
Revenue	72.35	109.12	216.56	255.54	293.87	337.96	388.65
Cost of sales	53.77	72.62	147.26	173.77	199.83	229.81	264.28
Gross profit	18.59	36.51	69.30	81.77	94.04	108.15	124.37
Other income	0.70	1.37	1.24	1.41	1.67	1.90	2.25
Operating expense	-15.57	-24.29	-44.15	-55.66	-67.12	-77.03	-88.44
Operating profit	3.72	13.59	26.39	27.52	28.59	33.01	38.18
Finance cost	2.76	1.25	10.55	11.01	11.44	13.21	15.27
PBT	1.29	12.97	16.73	18.49	19.79	23.18	26.79
PBT	-0.32	8.82	12.21	13.86	14.84	17.38	21.43

Balance Sheet	2021FY	H1:2022	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	94.24	95.53	98.23	105.08	111.38	117.20	122.64
Total Debt	15.99	25.22	29.20	48.54	54.27	57.13	58.57
Total Assets	169.41	199.70	189.84	223.43	232.26	239.78	247.18
Total Equity	74.29	83.61	77.95	80.72	83.69	87.17	91.45
Total Current Liabilities	82.96	103.72	97.70	106.79	108.39	110.38	112.80
Non-Current Liabilities	12.16	12.38	14.07	34.76	37.43	38.26	37.67
Total Liabilities	95.12	116.10	111.77	141.55	145.81	148.65	150.47

Financial Ratios	2021FY	H1:2022	2022F	2023F	2024F	2025F	2026F
Gross Margin	25.69%	33.46%	32.00%	32.00%	32.00%	32.00%	32.00%
Operating Margin	5.14%	12.46%	12.18%	10.77%	9.73%	9.77%	9.82%
Net Margin	-0.44%	8.08%	5.64%	5.43%	5.05%	5.14%	5.51%
Return on Asset	-0.19%	4.42%	6.43%	6.21%	6.39%	7.25%	8.67%
Return on Equity	-0.43%	10.55%	15.67%	17.18%	17.73%	19.94%	23.43%
Earnings per share	-0.14	4.03	5.58	6.33	6.77	7.94	9.78
Asset Turnover	0.43	0.55	1.14	1.14	1.27	1.41	1.57
Financial Leverage	2.28	2.39	2.44	2.77	2.78	2.75	2.70
Debt to Asset Ratio	0.09	0.13	0.15	0.22	0.23	0.24	0.24
Debt to EBIT Ratio	4.30	1.86	1.11	1.76	1.90	1.73	1.53
Current Ratio	0.90	1.00	0.93	1.10	1.11	1.11	1.10
Quick Ratio	0.64	0.74	0.68	0.83	0.85	0.84	0.81

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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: Guinness Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
05-Feb-2021	NGN19.00	NGN14.98	NGN16.99	HOLD	SELL
17-Feb-2022	NGN65.00	NGN16.99	NGN70.31	SELL	HOLD

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Company	Disclosure
Guinness Nigeria Plc	

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