

NB Ends 2021 On a Positive Note

Increased Domestic Demand and Upward Price Review Props Topline

Nigerian Breweries Plc (NB) closed the 2021FY on a solid note, posting a year on year revenue growth of +29.74% – the highest revenue growth rate since 2008FY – to NGN437.86bn from NGN337.05bn in the same period last year. The impressive topline growth was mainly supported by increased volume demand in the domestic market and price increases across its product categories: value, mainstream and premium brands. We also acknowledge that the broad acceptance of the brewer's recently launched products (including Sugar-free Amstel Malta, Star Radler Red Fruits, and Desperados) contributed to the robust demand. **For 2022, we remain optimistic about the brewer's growth prospect as the company management plans to deploy several growth initiatives (including the completion of its capacity expansion to support production volumes). Furthermore, we expect the introduction of excise duties on non-alcoholic drinks to translate into higher prices for non-alcoholic products. However, the effect of the spiralling inflationary pressure on consumer wallets remains a critical downside risk to the company's growth prospect in the near term. We have thus projected a 10.00%YoY increase in revenue to NGN481.01bn in 2022FY (vs. NGN437.29bn recorded in 2021FY).**

Production Costs Maintain Uptrend

In line with the sharp increase in revenue, NB's production cost also increased by robust double-digits (+26.80%YoY) to NGN276.87bn in 2021FY from NGN218.36bn in 2020FY. This was fueled by the enhanced production volume, increased raw material cost (attributable to the high inflationary environment), and foreign exchange scarcity in the domestic market. Nonetheless, cost to sales came in lower at 63.32% from 64.78% recorded in 2020FY, attributable to management's increased effort to sustain its cost management policy. On the other hand, operating expenses spiked by 37.40%YoY due mainly to the increase in marketing and promotion (+37.63%YoY) and administrative expense (+36.59%YoY). We also noticed a significant spike (+458.73%YoY) in other income, settling at NGN4.63bn from NGN0.83bn in 2021FY, traceable to the gain on right-of-use derecognition and increased profit from the sale of scrap. As a result, the operating margin increased to 9.49% from 8.78% in 2020FY.

Due to the company's exposure to foreign exchange volatility, the brewer recorded a net foreign exchange loss of NGN7.04bn in 2021FY from NGN4.77bn in 2020FY. Nonetheless, net finance costs came in lower by 1.31%YoY due to the payment of NGN11.07bn interest expense on loan and borrowing. Cumulatively, the brewer's profit after tax increased significantly by +71.98%YoY to NGN12.67bn in 2021FY from NGN7.37bn 2020FY. **Based on our expectation of an improvement in topline, we expect 2022FY earnings to improve to NGN17.17bn (from NGN12.67bn in 2021FY), implying a net margin of 3.57% from 2.90% in 2021FY.**

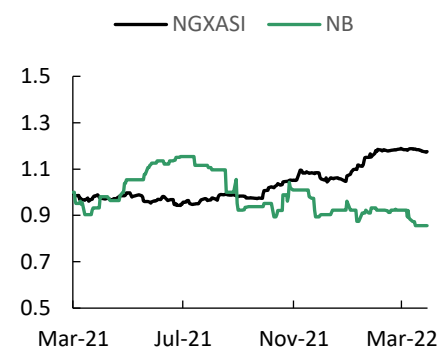
Increase in Trade Payables Impacts Liquidity Position

Although NB's earnings quality came in lower at 7.23x in 2021FY from 11.30x in 2020FY, the improvement in its net operating accruals (from -NGN75.91bn in 2020FY to -NGN78.90bn in 2021FY) makes a case for a healthy earnings quality position. We however observed a further deterioration in the brewer's working capital position to -NGN152.37bn in 2021FY from -NGN117.27bn in 2020FY. This was primarily induced by the significant increase (+62.66%YoY) in the company's trade payables, signifying a possible negotiation of favorable credit terms with its creditors to support its liquidity position in the short to medium term.

Outlook and Recommendation

We project a 2022FY expected EPS of NGN2.13 and a target PE of 25.90x. This yields a target price of NGN55.08 and an implied 23.77% upside potential based on the closing price on March 30th, 2022. Hence, we rate the ticker a **BUY**.

Company	NB
Valuation	
Trailing EPS	NGN1.57
BVPS	NGN21.29
P/E	29.76x
P/BV	2.19x
Target PE	25.90X
Dec-2022 Exp. EPS	NGN2.13
Dec 2022 Target price	NGN55.08
Current Price	NGN44.50
Up/Downside Potential	+23.77%
Ratings	BUY
Key metrics- Trailing	
ROE	7.37%
ROA	2.61%
Net margin	2.90%
Asset Turnover	0.94x
Leverage	2.82x
Yr Hi	NGN48.50
Yr Lo	NGN44.50
YTD return	-8.25%
Beta	1.44
Adjusted Beta	1.29
Proposed dividend	NGN1.20
Shares outstanding	8.08bn
Market cap [NGN]	377bn
Financial year end	December
Most Recent Period	2021FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	51.82
						Max	58.43
						EPS	
Target PE		2.06	2.09	2.13	2.16	2.19	
	25.12x	51.82	52.62	53.43	54.23	55.03	
	25.51x	52.62	53.44	54.25	55.07	55.88	
	25.90x	53.43	54.25	55.08	55.90	56.73	
	26.29x	54.23	55.07	55.90	56.74	57.58	
	26.68x	55.03	55.88	56.73	57.58	58.43	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	337.05	437.29	481.01	529.12	582.03	640.23	704.25
Cost of sales	218.36	276.87	316.98	344.09	374.63	408.82	446.97
Gross profit	118.69	160.41	164.03	185.02	207.40	231.41	257.28
Operating expense	89.91	123.55	132.46	146.60	163.18	179.54	195.14
Operating profit	29.61	41.49	33.26	40.28	46.25	54.11	64.61
Finance cost	18.27	18.11	8.40	13.68	19.92	25.47	31.68
PBT	11.58	23.70	25.25	27.01	26.81	29.12	33.45
PAT	7.37	12.67	17.17	18.36	18.23	19.80	22.75
Balance Sheet	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	213.41	257.22	271.42	270.27	273.53	280.93	292.27
Total Debt	91.45	31.37	52.67	84.10	115.07	139.66	177.14
Total Assets	445.86	485.52	508.67	539.93	565.25	594.79	634.47
Total Equity	161.18	171.91	175.35	179.02	182.67	186.63	191.18
Total Current Liabilities	210.47	272.53	274.93	277.32	274.56	253.23	251.07
Non-Current Liabilities	74.21	41.08	58.39	83.59	108.03	154.94	192.23
Total Liabilities	284.68	313.61	333.32	360.91	382.59	408.16	443.30
Financial Ratios	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	35.22%	36.68%	34.10%	34.97%	35.63%	36.14%	36.53%
Operating Margin	8.78%	9.49%	6.91%	7.61%	7.95%	8.45%	9.17%
Net Margin	2.19%	2.90%	3.57%	3.47%	3.13%	3.09%	3.23%
Return on Asset	1.65%	2.61%	3.38%	3.40%	3.22%	3.33%	3.59%
Return on Equity	4.57%	7.37%	9.79%	10.26%	9.98%	10.61%	11.90%
Return on Invested Capital	8.49%	8.68%	13.56%	12.56%	11.02%	10.92%	11.12%
Asset Turnover	0.76x	0.90x	0.95x	0.98x	1.03x	1.08x	1.11x
Financial Leverage	2.77x	2.82x	2.90x	3.02x	3.09x	3.19x	3.32x
Current Ratio	0.44x	0.44x	0.45x	0.54x	0.60x	0.71x	0.79x
Quick Ratio	0.27x	0.21x	0.23x	0.30x	0.34x	0.44x	0.49x

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year) (F- Forecast)

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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
31-March-22	44.50	45.60	55.08	HOLD	BUY

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