

NB Delivers Historic Q1 Performance

Q1:2022 Revenue Hits Record High

Nigerian Breweries Plc (NB) started 2022 on a strong footing as it recorded a topline growth of 30.37%YoY, bringing revenue to NGN137.77bn (from NGN105.66bn in the corresponding period). The impressive performance was mainly anchored on the sustained domestic demand, increased production volume and price increases implemented in mid-2021. **In our view, the brewer has continued to enjoy sustained domestic patronage across its business segments, particularly the non-alcoholic brands as well as the premium and mainstream lagers. Our topline outlook for the rest of the year remains broadly positive, as we expect the implementation of management's several innovative initiatives (including the expansion of production capacity) to support growth. Also, we expect the brand loyalty the company enjoys from consumers to support domestic patronage despite the competitive environment. However, strained consumer purchasing power induced by rising inflationary pressures constitutes a major headwind to our growth projection. Premised on the foregoing, we have revised our 2022FY revenue forecast higher to NGN534.48bn (implying a 22.23%YoY increase).**

Cost to Sales Ratio Improves

The brewer's production cost grew slower relative to revenue, rising by 14.11%YoY to NGN75.32bn (vs. NGN66.00bn in Q1:2021). This was mainly influenced by the upward trend in raw material cost and increased production volume. However, despite the increase in production cost, cost-to-sales dropped significantly to 54.67% (vs. 62.46% in Q1:2021) due to the outstanding topline performance. Operating expenses rose by a weighty 54.95%YoY to NGN39.59bn on the back of a significant rise in administrative and marketing and distribution expenses. Notwithstanding, operating profit stayed resilient, rising by 63.72%YoY to NGN23.72bn. Therefore, the operating margin increased to 17.22% (vs. 13.71% in Q1:2021).

Finance cost declined by 51.54%YoY to NGN1.16bn, owing to the decline in total borrowings to NGN46.84bn in Q1:2022 (vs. NGN51.52bn in Q1:2021). However, the company incurred a significant foreign exchange loss (+206.70%YoY to NGN1.88bn), diminishing the impact of lower finance costs as the total net finance charge declined only marginally by 0.50%YoY. Overall, both the Profit Before Tax (PBT) and Profit after Tax (PAT) improved substantially by 80.32%YoY and 77.73%YoY, pushing the net margin higher to 9.88% (vs. 7.25% in Q1:2022). **While we expect the uptrend in production cost to impact earnings, we maintain that the company's earnings growth would be sustained, owing to the positive topline growth outlook.**

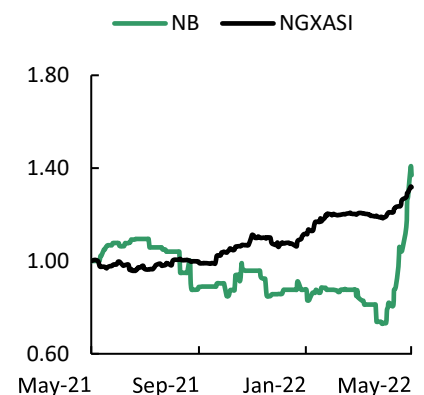
Liquidity Position Improves Amidst Poor Earnings Quality

The brewer's current assets (+19.50%) grew faster than its current liabilities (+9.39%), influenced by higher inventories (+10.08%) and trade receivables (+37.79%). Hence, current, quick and cash ratios improved to 0.48x, 0.25x and 0.08x (from 0.44x, 0.21x and 0.06x in 2021FY, respectively), signifying that the firm has an improved cover for its short term obligations. **However, we note the possibilities of channel stuffing in the period as the expansion in trade receivables outpaced revenue growth.** We also observed that NB's net cash flow from operating activities settled at **-NGN7.50bn** in Q1:2022 relative to NGN14.76bn recorded in Q1:2021. As a result, net operating accruals pegged at NGN21.16bn (vs. **-NGN7.10bn** in Q1:2021) as net income (NGN13.61bn) significantly surpassed the cash from the operation, signaling the company's poor earnings quality during the period.

Outlook and Recommendation

We project a 2022FY expected EPS of NGN3.12 and a target PE of 25.45x. This yields a target price of NGN79.51 and an implied 5.94% upside potential based on the closing price on May 11th, 2022. Hence, we rate the ticker a **HOLD**.

Company	NB
Valuation	
Trailing EPS	NGN2.31
BVPS	NGN21.29
P/E	30.35x
P/BV	3.29x
Target PE	25.45X
Dec-2022 Exp. EPS	NGN3.12
Dec 2022 Target price	NGN79.51
Current Price	NGN75.05
Up/Downside Potential	+5.94%
Ratings	HOLD
Key metrics- Trailing	
ROE	10.02%
ROA	3.57%
Net margin	9.88%
Asset Turnover	0.90x
Leverage	2.80x
Yr Hi	NGN77.00
Yr Lo	NGN40.00
YTD return	50.10%
Beta	1.10
Adjusted Beta	1.07
Shares outstanding	8.08bn
Market cap [NGN]	565bn
Financial year end	December
Most Recent Period	Q1:2022



Analyst
Juliana Ogunkoya
julianaogunkoya@meristemng.com
 +234 (814) 618 3751

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs							Min	74.81
						84.35	Max	84.35
Target PE	79.51	3.03	3.08	3.12	3.17	3.22		
	24.69x	74.81	75.97	77.12	78.28	79.44		
	25.07x	75.97	77.14	78.32	79.49	80.66		
	25.45x	77.12	78.32	79.51	80.70	81.89		
	25.83x	78.28	79.49	80.70	81.91	83.12		
	26.22x	79.44	80.66	81.89	83.12	84.35		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
Revenue	105.68	137.77	534.48	614.95	676.45	744.09	818.50
Cost of sales	-66.00	-75.32	332.86	377.42	412.74	451.96	495.42
Gross profit	171.68	213.09	201.62	237.53	263.71	292.13	323.08
Operating expense	25.55	24.69	147.19	170.38	189.66	208.66	226.80
Operating profit	14.49	23.72	57.15	70.10	77.57	87.65	101.40
Finance cost	2.39	1.16	20.50	22.88	26.55	27.45	29.25
PBT	11.51	20.76	37.10	47.68	51.57	60.75	72.75
PAT	7.66	13.61	25.23	32.42	35.07	41.31	49.47
Balance Sheet	Q1:2022	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	273.11	257.22	278.47	285.84	297.02	311.94	330.57
Total Debt	46.84	31.37	54.04	89.00	123.42	96.19	137.85
Total Assets	521.37	485.52	498.27	562.61	604.08	618.59	707.93
Total Equity	185.98	171.91	176.96	183.44	190.46	198.72	208.61
Total Current Liabilities	298.12	272.53	261.63	291.34	297.48	296.16	333.29
Non-Current Liabilities	37.28	41.08	59.69	87.82	116.15	123.72	166.02
Total Liabilities	335.39	313.61	321.31	379.16	413.63	419.88	499.31
Financial Ratios	Q1:2022	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	154.67%	162.46%	37.72%	38.63%	38.98%	39.26%	39.47%
Operating Margin	17.22%	13.71%	10.69%	11.40%	11.47%	11.78%	12.39%
Net Margin	9.88%	7.25%	4.72%	5.27%	5.18%	5.55%	6.04%
Return on Asset	2.61%	1.58%	5.06%	5.76%	5.80%	6.68%	6.99%
Return on Equity	7.32%	4.46%	14.26%	17.67%	18.41%	20.79%	23.71%
Return on Invested Capital	8.49%	8.68%	19.66%	21.42%	20.11%	25.22%	25.70%
Asset Turnover	0.26x	0.22x	1.07x	1.09x	1.12x	1.20x	1.16x
Financial Leverage	2.80x	2.82x	2.82x	3.07x	3.17x	3.11x	3.39x
Current Ratio	0.48x	0.44x	0.39x	0.51x	0.56x	0.52x	0.64x
Quick Ratio	0.25x	0.21x	0.16x	0.27x	0.31x	0.24x	0.37x

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

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 isaacnaolapo@meristemng.com (+234 803 234 8275)
 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 (+234 01 738 9948)

Registrars

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

Trust Services

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

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
 ifeomaogalue@meristemng.com (+234 802 3942967)
 info@meristemng.com

Client Services

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

Investment Research

research@meristemng.com

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

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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
09-May-22	75.05	55.08	79.51	BUY	HOLD

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