

2022FY Ends on A Strong Footing

Increased Domestic Sales Spur Topline

Guinness Nigeria Plc wrapped up its 2022 financial scorecard (Full year ends June) on a positive note, recording a 23.93% YoY revenue growth to NGN206.82bn (vs. NGN160.42bn in 2021FY). The brewer's domestic sales, which make up c.99.06% of its total revenue, spiked by 23.89% YoY to NGN204.87bn in 2022FY, while the export sales soared by 32.87% YoY to NGN1.95bn (vs. NGN1.47bn in 2021FY). In Q4:2022 standalone, **GUINNESS** recorded slower than anticipated growth as revenue expanded by 4.22% YoY to NGN47.38bn (NGN45.46bn in Q4:2021). We attribute this to the general slowdown in economic activities and rising prices which has continued to strain disposable income. Consequently, the brewer recorded a significant decline (-14% YoY in Q4:2022) in sales volume as major products including Guinness (-20% YoY), Malta (-11% YoY), Dubic (-80% YoY), International Premium Spirits (-53% YoY) all plunged substantially during the quarter. Notwithstanding, **GUINNESS's** cumulative revenue growth was bolstered by the price increases across its business segments (Beer, Lager, Stout, RTD, Malt and Mainstream Spirit), the launch of new products (Orijin Tigernut & Ginger, Captain Morgan Gold and Singleton) as well as the marginal growth in its cumulative sales volume (7.01mn in 2022FY vs. 6.98mn in 2021FY). **To sustain the growth trajectory, Management intends to implement several strategic growth initiatives including direct price increases, increased distribution, and expanding product categories with high margins (such as the ready-to-drink and premium spirits). Also, given that the election year is fast approaching, we envisage that political campaign-driven spending will considerably increase demand. Although we see the proposed initiatives as a positive for the company's growth prospect, the current uncertainties surrounding the operating environment (including the high inflation, FX illiquidity and shrinking disposable income) constitute a significant risk to the brewer's near-term outlook. Overall, we forecast revenue growth of 20.00% to NGN248.19bn.**

Profitability Increases Despite Cost Pressures

With the rising inflation rate and foreign exchange scarcity, it is no surprise that the brewer's production cost increased (+16.96% YoY to NGN134.16bn in 2022FY) during the period, although at a slower pace relative to the revenue growth. Nevertheless, cost to sales ratio improved to 64.87% in 2022FY (vs. 71.51% in 2021FY). Operating expense jumped by 39.63% YoY to NGN51.06bn in 2022FY (vs. NGN26.56bn in 2021FY), attributable to the increase in administrative expense (+30.58% YoY) as well as the marketing and distribution expense (+43.28% YoY). Nonetheless, the operating profit settled higher by 142.08% YoY to NGN23.90bn (vs. NGN9.87bn in 2021FY), pushing the operating margin to 11.56% in 2022FY (vs. 6.15% in 2021FY). We observed a significant moderation in the net finance expense (NGN2.13bn in 2022FY from NGN4.63bn in 2021FY), owing to the decline in the remeasurement of foreign currency balances and interest expenses on loans and borrowings. Ultimately, the brewer's PBT and PAT improved significantly by 310.22% YoY and 1144.94% YoY to NGN23.68bn and NGN15.65bn (vs NGN5.77bn and NGN1.26bn in 2021FY), respectively in 2022FY on the back of the impressive revenue performance recorded. While we expect production cost to maintain an uptrend due to the high inflationary environment and foreign exchange scarcity, we project a 7.33% YoY increase in net income to NGN16.80bn premised on the strong topline growth prospect.

Liquidity Metrics Improves

GUINNESS's working capital position improved to NGN3.87bn in 2022FY (vs. **-NGN8.22bn** in 2021FY) attributable to the sharper growth in the brewer's liquid assets (+57.36% YoY) relative to the increase (+37.10% YoY) in short-term liabilities. Similarly, all liquidity metrics strengthened from the previous position with current, cash and quick ratios increasing to 1.03x, 0.61x and 0.75x in 2022FY (vs. 0.90x, 0.43x and 0.64x in 2021FY) respectively. This signifies an improved cover for the brewer's short-term obligation.

Recommendation

Premised on our 2023FY expected EPS of NGN7.67 and target PE of 13.85x, we arrived at a target price of NGN106.23. This represents a 26.47% upside when compared to the ticker's closing price as of 19th August 2022. Hence, we recommend a **BUY** on the ticker.

Company	GUINNESS
Valuation	
EPS	NGN7.15
BVPS	41.08
P/E	11.75x
P/BV	2.04x
Target PE	13.85x
Dec-2023 Exp. EPS	NGN7.67
Dec 2023 Target price	106.23
Current Price	84.00
Up/Downside Potential	26.47%
Ratings	BUY
Key metrics	
ROE	17.40%
ROA	7.26%
Net margin	7.57%
Asset Turnover	0.96
Leverage	2.40
Share Price Data	
Year High	110.00
Year Low	39.00
YTD return	+115.38%
Beta	0.570
Adjusted Beta	0.715
Shares outstanding	2.19bn
Market cap [NGN]	183.99bn
Financial year end	June
Most Recent Period (MRP)	2022FY

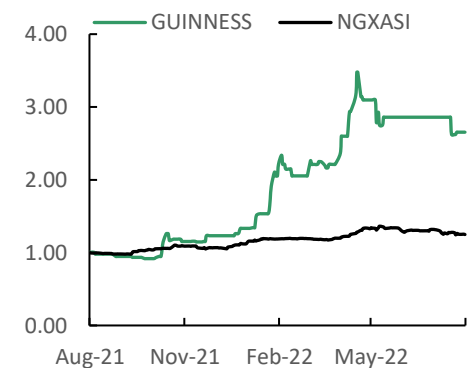


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	99.96
						Max	112.70
						EPS	
						7.44	7.56
						7.67	7.79
						7.90	
Target PE	13.43x	99.66	101.50	103.05	104.59	106.14	
	13.64x	101.50	103.07	104.64	106.21	107.78	
	13.85x	103.05	104.64	106.23	107.83	109.42	
	14.06x	104.59	106.21	107.83	109.44	111.06	
	14.27x	106.14	107.78	109.42	111.06	112.70	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2022FY	2021FY	2023F	2024F	2025F	2026F	2027F
Revenue	206.82	160.42	248.19	285.41	328.23	377.46	434.08
Cost of sales	134.16	114.71	161.32	185.52	213.35	245.35	282.15
Gross Profit	72.66	45.71	86.87	99.90	114.88	132.11	151.93
OPEX	51.06	36.56	64.28	73.78	84.69	97.25	111.68
Operating Profit	23.90	9.87	24.33	28.26	32.75	38.03	44.06
Finance Cost	2.13	4.63	3.65	4.24	4.91	5.70	6.61
PBT	23.68	5.77	22.40	26.66	31.40	36.55	41.68
PAT	15.65	1.26	16.80	19.99	23.55	27.41	31.26

Balance Sheet	2022FY	2021FY	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	97.69	94.24	99.85	106.35	111.68	116.05	123.76
Total Debt	31.31	15.99	28.43	44.22	52.11	56.05	58.03
Total Assets	215.66	169.41	207.12	224.68	235.46	243.22	258.95
Total Equity	89.98	74.29	93.34	97.34	102.05	107.53	113.78
Total Current Liabilities	113.73	82.96	95.89	104.04	109.51	114.12	126.63
Non-Current Liabilities	11.95	12.16	26.59	33.28	36.13	36.54	37.33
Total Liabilities	125.68	95.12	127.52	122.48	137.32	145.63	150.66

Financial Ratios	2022FY	2021FY	2023F	2024F	2025F	2026F	2027F
Gross Margin	35.13%	28.50%	35.00%	35.00%	35.00%	35.00%	35.00%
Operating Margin	11.56%	6.15%	9.80%	9.90%	9.98%	10.08%	10.15%
Net Margin	7.57%	0.78%	6.77%	7.01%	7.18%	7.26%	7.20%
Return on Asset	7.26%	0.74%	8.11%	8.90%	10.00%	11.27%	12.07%
Return on Equity	17.40%	1.69%	18.00%	20.54%	23.08%	25.49%	27.47%
Asset Turnover	0.96x	0.95x	1.20x	1.27x	1.39x	1.55x	1.68x
Financial Leverage	2.40x	2.28x	2.22x	2.31x	2.31x	2.26x	2.28x
Debt to Asset Ratio	0.15x	0.09x	0.14x	0.20x	0.22x	0.23x	0.22x
Debt to EBIT Ratio	1.31x	1.62x	1.17x	1.56x	1.59x	1.47x	1.32x
Current Ratio	1.03x	0.90x	1.11x	1.13x	1.13x	1.11x	1.06x
Quick Ratio	0.75x	0.64x	0.83x	0.88x	0.88x	0.84x	0.78x

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

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Movements in Price Target

Company Name: Guinness Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
17-Feb-2022	65.00	16.99	70.31	SELL	HOLD
19-August-2022	84.00	70.31	106.23	BUY	BUY

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Company	Disclosure
Guinness Nigeria Plc	

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