

Naira Devaluation Spurs Net Loss for GUINNESS

Resilient Topline Performance Amidst Macroeconomic Woes

Guinness Nigeria Plc wrapped up its 2023 fiscal year (full year ended in June) with a 10.94% YoY revenue growth, reaching NGN229.44bn from NGN206.82bn in 2022FY. Domestic sales, constituting around 99% of the total revenue, surged 10.97% YoY to NGN227.35bn, while exports grew by 7.18% YoY, totaling NGN2.05bn (compared to NGN204.87bn and NGN1.95bn in 2022FY, respectively). This upturn is attributed to strategic pricing adjustments and improved distribution efficiency via the B2B platform. Notably, stout, ready-to-drink, and mainstream spirits posted robust growths of 14.00%, 36.00%, and 12.00% YoY, respectively. Despite a sales volume decline of approximately 3.70%, the positive impact of price hikes effectively tempered the impact on overall revenue. Also, Q2:2023 (October-December 2022 according to the company's financial calendar) saw peak revenue (28.59% of full year income), ascribed to the festivities commemorating Christmas and year-end celebrations. Furthermore, the cash crunch fiasco earlier in the year had a marginal influence on topline performance due to the company's adept use of digital platforms to sustain sales. Remarkably, the management was able to achieve some of the goals outlined for the year such as deliberate price adjustments and a heightened focus on strategic brand positioning, thus optimizing revenue streams during the fiscal year. **In our view, the company is poised to sustain its strong topline performance, thanks to its diverse and effective brand portfolio. Additionally, the Management has articulated ambitions to drive growth in targeted categories such as ready-to-drink, ready-to-serve, and non-alcoholic malt segments. Consequently, we expect demand to remain strong as the company maintains its strong brand presence, especially in the southwest region. Nevertheless, we must recognize that the presence of strong competitors within the industry, coupled with the ongoing erosion of consumer purchasing power, introduces potential downward risks to this projection. We project a 2024FY revenue growth of 14.95% YoY to NGN263.75bn.**

Surging Finance Cost Obliterate Profitability

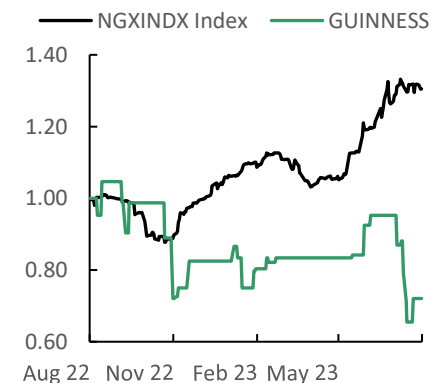
The escalation in the company's cost of sales surpassed the observed revenue growth, with costs climbing to NGN151.31bn (+12.78% YoY) from NGN134.16bn in 2022FY. The increase in costs is primarily attributed to a rise in raw materials and consumables cost (which constitutes approximately 70% of the total cost of sales). While a significant portion of the company's raw materials is procured domestically, the prices of crucial components, such as sorghum and maize surged particularly during the final quarter of the financial year, substantiating this increase. Consequently, the cost-to-sales ratio deteriorated slightly by 108bps to 65.95%. Furthermore, administrative expenses increased by 23.82% YoY, alongside a 10.45% YoY rise in marketing and distribution costs, resulting in a 2.27% drop in operating profit to NGN 23.36 bn. While the company's finance income was boosted by significant gains from remeasuring foreign currency balances (+309.07% YoY), the overall bottom-line performance was dampened by a sharp rise in finance costs. This increase is owing to the devaluation of the Naira and subsequent depreciation in Q4:2023, leading to considerable losses on foreign exchange transactions. Finance costs surged by 25times to NGN53.29bn from NGN2.13bn in 2022FY. Contributory factors to this loss include exchange differences on foreign currency intercompany loans (+3977.65% YoY), exchange differences on foreign currency letter of credits (+27659.83% YoY), and losses on the remeasurement of foreign currency balances (+1753.14% YoY). Consequently, **GUINNESS** concluded the 2023 fiscal year with a net loss of NGN18.17bn, marking a significant decrease of -216.08% YoY vs NGN15.65bn in 2022FY. **Looking ahead, we anticipate the increase in input costs to persist due to prevailing macroeconomic challenges. Additionally, with the likely continuous depreciation of the Naira on the horizon, we foresee further losses on foreign exchange transactions. Nevertheless, we expect minimal improvement in bottom-line performance in the upcoming fiscal year, to be driven by projected revenue growth.**

Solvency Concerns Arise as GUINNESS' Debt Spike

In 2023FY, the company experienced a dramatic surge in its debt stock, soaring by 103.63% YoY to reach NGN63.76bn from NGN31.31bn. This rise was chiefly driven by the revaluation of foreign-denominated related party loans (+90.46%) and letters of credit (+109.30%), which stemmed from the Naira's devaluation in June 2023. Furthermore, GUINNESS' total liabilities rose by 47.46% YoY, influenced by the combined impact of loan revaluation and an increase in trade and other payables (+59.63% YoY). Notably, the company currently has a negative working capital position, a result of the substantial surge in current liabilities. As a result, key liquidity ratios such as current ratio, quick ratio, and cash ratio, deteriorated to 0.77x, 0.58x, and 0.50x (vs 1.03x, 0.75x, and 0.61x in 2022FY) respectively. We note that this signals a reduction in the company's ability to meet its short-term obligations.

Company	GUINNESS
Valuation	
EPS	NGN-8.29
BVPS	NGN25.76
P/E	31.91x
P/BV	2.35x
Target EV/EBITDA	5.71x
June 2024 Exp. EBITDA per share	NGN8.43
June 2024 Target Price	NGN48.13
Current Price	NGN60.50
Up/Downside Potential	-20.45%
Ratings	SELL
Key metrics	
ROE	-32.20%
ROA	-7.52%
Net margin	-7.92%
Asset Turnover	0.95x
Leverage	4.28x
Yr Hi	NGN80.00
Yr Lo	NGN55.00
YTD return	-12.70%
Beta	0.57
Adjusted Beta	0.71

Shares outstanding	2.19bn
Market cap [NGN]	162.09bn
Financial year end	June
Most Recent Period	2023FY



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Recommendation

We project a 2024FY EBITDA per share of NGN8.43 and a Target EV/EBITDA of 5.71x leading to a target price of NGN48.13. This represents a downside potential of **-20.45%** from its closing price of NGN60.50 as of 18th August 2023. Hence, we rate the ticker a **"SELL"**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of June-2023 Target Price to key model inputs						Min	41.31
						Max	55.45
						EBITDA per share	
						7.93	8.18
						8.43	8.68
						8.93	
Target EV/EBITDA	5.21x	41.31	42.62	43.92	45.22	46.52	
	5.46x	43.30	44.61	46.03	47.39	48.76	
	5.71x	45.28	46.71	48.13	49.56	50.99	
	5.96x	47.26	48.75	50.24	51.73	53.22	
	6.21x	49.24	50.80	52.35	53.90	55.45	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Revenue	206.82	229.44	263.75	295.36	330.75	363.82	400.21
Cost of Sales	134.16	151.31	174.08	197.89	218.29	236.49	264.14
Gross Profit	72.66	78.33	89.68	97.47	112.45	127.34	136.07
Net OPEX	51.06	58.22	71.21	79.75	89.30	98.23	108.06
Other Income	2.74	3.53	2.64	2.95	3.31	3.64	4.00
Operating Profit	23.90	23.36	21.10	23.63	26.46	29.11	32.02
Finance Cost	2.13	53.29	16.78	18.28	19.74	17.91	19.34
PBT	23.67	-22.14	6.96	8.30	10.03	14.84	16.68
PAT	15.65	-18.17	4.66	5.56	6.72	9.94	11.17

Balance Sheet	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Property, Plant and Equipment	97.69	99.18	124.94	139.91	156.67	172.34	189.57
Total Debt	31.31	63.76	70.13	75.74	81.80	88.35	95.41
Total Assets	215.66	241.75	277.63	310.90	348.16	382.97	421.27
Total Equity	89.98	56.42	74.69	77.47	79.49	82.47	85.82
Current Liabilities	113.73	183.67	192.50	221.74	255.59	286.12	319.63
Non-Current Liabilities	11.95	1.65	6.28	11.69	13.08	14.38	15.82
Total Liabilities	125.68	185.32	202.94	233.43	268.67	300.50	335.45

Financial Ratios	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Gross Margin	35.13	34.05%	34.00%	33.00%	34.00%	35.00%	34.00%
Operating Margin	11.56%	10.18%	8.00%	7.00%	8.00%	9.00%	8.00%
Net Margin	7.57%	-7.92%	1.77%	1.21%	2.03%	3.40%	2.79%
Return on Asset	7.26%	-7.52%	1.68%	1.15%	1.93%	3.23%	2.65%
Return on Equity	17.39%	-32.20%	6.24%	4.69%	8.56%	15.06%	13.06%
Return on Invested Capital	22.38%	13.12%	25.23%	25.82%	26.10%	31.90%	31.03%
Asset Turnover	0.96	0.95	0.95	0.95	0.95	0.95	0.95
Financial Leverage	2.40	4.28	3.72	4.06	4.44	4.66	4.92
Debt to Asset Ratio	0.15	0.26	0.25	0.24	0.23	0.23	0.23
Current Ratio	1.03	0.77	0.77	0.76	0.74	0.73	0.72
Quick Ratio	0.75	0.58	0.54	0.54	0.52	0.51	0.51

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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
18-August-2023	60.50	97.68	48.13	BUY	SELL
7-July-2023	80.00	82.68	97.68	HOLD	BUY

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Guinness Nigeria Plc.	

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