

Product Price Review to Sustain 2023FY Topline.

Cumulative Revenue Rebounds in Second Quarter

In what was an especially challenging first half, (*cash crunch in the first quarter impacting sales volumes and supply chain disruptions amongst others*), Nigerian Breweries recorded a topline growth of 1.22%YoY to NGN277.42bn (from NGN 274.09bn in H1:2022). This performance was mainly supported by its recovery in the second quarter from the challenges faced in Q1:2023 (*where revenue declined by 10.49%*) as the Q2:2023 standalone topline grew by 13.05% YoY to NGN154.11bn (vs. NGN136.31bn in Q1:2022), representing the company's highest quarterly revenue in a single quarter. The firm also implemented price increases across products in the lager and non-alcoholic segments and recorded volume expansion in its flavored beers category which also buoyed revenue growth in the period. **For the second half of the year, we expect the company to sustain its improved Q2:2023 revenue performance, leveraging its strong brand portfolio and market leadership. We also expect the company's announced product price hike to further improve revenue in 2023FY. However, persistent inflationary pressures and dwindling consumer purchasing power presents major downside risk to revenue growth as proposed price increases could negatively impact its sales volumes. Hence, we project a 2023FY revenue growth of 9.83% YoY to NGN604.75bn.**

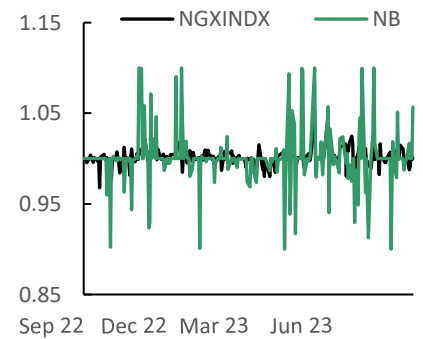
Revaluation of Foreign Currency Transactions Triggers a Net Loss

The prices of the firm's major raw materials (like sorghum and maize) increased significantly during the period. As a result, the firm recorded higher raw materials cost during the period (+4.87%YoY), leading production costs higher by 6.27% YoY to NGN165.09bn (raw materials make up c.70% of total), outpacing the growth in revenue. Thus, the cost-to-sales ratio worsened to 59.51% from 56.68%. Similarly, operating expenses (OPEX) ticked up marginally by 0.66% YoY to NGN84.39bn (vs. NGN83.83bn in H1:2022) largely owing to higher administrative expenses (+13.53% YoY). Ergo, operating margin deteriorated to 10.23% from 13.08% in H1:2022. Due to the company's foreign exchange exposure, the brewer recorded a net foreign exchange loss of NGN85.26bn (+1071.01%YoY) due to the Naira devaluation in the period. This coupled with the +260.74% increase in finance cost (due to higher interest-bearing liability (+107.08% YtD), led the firm into a record-high loss of **NGN47.60bn** (from the NGN18.74bn profit recorded in H1:2022). **For the rest of the year, we anticipate that the persisting macroeconomic challenges will continue to drive an increase in input costs. Also, with the looming prospect of the Naira's continuous depreciation, we project further losses on foreign exchange transactions. Consequently, we anticipate the company will conclude the year with a loss (NGN67.58bn), as mounting costs and escalating losses from foreign exchange transactions are likely to undermine profitability for the entire year.**

Surge in Debt Strains Liquidity and Working Capital Position

In H1:2023, the company's working capital position significantly deteriorated, plummeting from -NGN155.35bn in H1:2022 to -NGN318.61bn. This decline is chiefly anchored on the substantial surge in current liabilities (+70.16% YoY), mainly driven by the additional debt acquired during the period. Furthermore, our analysis of the cash flow statements reveal that the firm's operations was mainly financed through the proceeds from loans and borrowings during the period. Consequently, the cash flow-to-debt ratio worsened, declining from -0.12x in H1:2022 to -0.26x. Earnings quality also deteriorated, falling to -1.38x from 0.56x in H1:2022. Additionally, due to the short-term nature of the bulk of the additional loans acquired, there was an adverse impact on liquidity ratios. Both the current and quick ratios declined to 0.39x and 0.21x (from 0.49x and 0.22x in H1:2022), respectively.

Company	NB
Valuation	
Trailing EPS	NGN-5.17
BVPS	NGN11.86
P/E	-7.44x
P/BV	3.25x
Target EV/EBITDA	5.38x
Dec-2023 Exp. EBITDA per share	NGN8.23
Dec 2023 Target price	NGN44.30
Current Price	NGN42.00
Up/Downside Potential	+5.48%
Ratings	HOLD
Key metrics	
ROE	-43.63%
ROA	-7.84%
Net margin	-9.60%
Asset Turnover	0.82x
Leverage	5.56x
Yr Hi	NGN47.95
Yr Lo	NGN32.00
YTD return	-6.10%
Beta	1.35
Adjusted Beta	1.23
Shares outstanding	10.28bn
Market cap [NGN]	431.60bn
Financial year end	December
Most Recent Period	H1:2023FY



Recommendation

We project a 2023FY EBITDA per share of NGN8.23 and a Target EV/EBITDA of 5.38x leading to a target price of NGN44.30. This represents an upside potential of **5.48%** from its closing price of NGN42.00 as of 9th October 2023. Hence, we rate the ticker a **"HOLD"**.

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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs							Min	37.75
EBITDA per share							Max	51.36
	44.30	7.73	7.98	8.23	8.48	8.73		
Target EV/EBITDA	4.88x	37.75	38.97	40.19	41.41	42.63		
	5.13x	39.68	40.96	42.25	43.53	44.81		
	5.38x	41.61	42.96	44.30	45.65	46.99		
	5.63x	43.54	44.95	46.36	47.77	49.18		
	5.88x	45.48	46.95	48.42	49.89	51.36		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Revenue	274.08	277.42	604.75	664.17	729.44	801.13	879.85
Cost of Sales	155.35	165.09	332.61	365.30	401.19	432.61	475.12
Gross Profit	118.74	112.32	272.14	298.88	328.25	368.52	404.73
Net OPEX	83.83	84.39	172.14	189.05	207.63	228.04	250.44
Operating Profit	35.84	28.38	48.03	49.77	54.62	67.36	72.51
Finance Cost	3.09	11.15	34.22	51.33	52.94	58.23	64.05
PBT	25.70	-67.84	-67.58	7.10	11.58	19.60	20.28
PAT	18.74	-47.60	-67.58	4.83	7.87	13.33	13.79

Balance Sheet	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	278.38	368.81	348.09	360.91	382.68	408.69	437.08
Total Debt	87.97	253.15	305.66	336.23	369.85	406.84	447.52
Total Assets	531.81	677.98	689.19	758.42	818.63	879.48	950.83
Total Equity	187.97	121.84	180.57	182.25	184.20	186.83	189.63
Current Liabilities	304.65	518.37	406.21	462.38	509.19	554.51	609.34
Non-Current Liabilities	39.20	37.77	101.90	113.21	124.60	137.43	151.09
Total Liabilities	343.84	556.14	508.11	575.59	633.79	691.94	760.43

Financial Ratios	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Gross Margin	43.32%	40.49%	45.00%	45.00%	45.00%	46.00%	46.00%
Operating Margin	13.08%	10.23%	7.58%	6.84%	6.82%	7.65%	7.48%
Net Margin	6.84%	-17.16%	2.70%	2.31%	2.43%	2.99%	2.88%
Return on Asset	3.52%	-7.02%	2.48%	2.22%	2.38%	3.00%	2.94%
Return on Equity	9.97%	-39.07%	9.48%	9.22%	10.57%	14.12%	14.73%
Return on Invested Capital	22.38%	13.12%	9.93%	22.05%	23.05%	26.80%	27.17%
Asset Turnover	0.52	0.41	0.92x	0.96x	0.98x	1.00x	1.02x
Financial Leverage	2.83	5.56	3.82x	4.16x	4.44x	4.71x	5.01x
Debt to Asset Ratio	0.17	0.37	0.20x	0.20x	0.20x	0.20x	0.20x
Current Ratio	0.49x	0.39x	0.57x	0.61x	0.62x	0.62x	0.62x
Quick Ratio	0.22x	0.21x	0.35x	0.39x	0.39x	0.39x	0.40x

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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
9-Oct-2023	42.00	59.25	44.30	BUY	HOLD
07-July-2023	44.00	44.84	59.25	HOLD	BUY

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