



Flash Note | GUINNESS Nigeria Plc

GUINNES to Cease Importation and Distribution of Diageo Products

Implication and Recommendation

October 2023

In 2016, Guinness Nigeria Plc (**GUINNESS**) secured the exclusive distribution rights for its parent company (Diageo plc)'s International Premium Spirits (IPS) brands in Nigeria to improve its product portfolio and operated as the sole entity distributing the IPS products in Nigeria. Given the inability to produce the products locally, the distribution of IPS products further exposed the company to FX illiquidity and volatility.

Thus, we view **GUINNESS**'s announcement to cease the importation and distribution of select Diageo international premium spirits products (Johnnie Walker, Singleton, and Baileys and others) by April 2024 as another fallout of the recent and further expected exchange rate devaluation in the domestic market. For context, its 2023FY results, showed a significant spike in finance costs (+2401.62% YoY) caused by losses on exchange difference (some of which we opine was incurred from its arrangement with Diageo Plc. These losses encompassed foreign currency intercompany loans (+3977.65% YoY), foreign currency letters of credit (+27659.83% YoY), and remeasurement of foreign currency balances (+1753.14% YoY), ultimately leading to a NGN18.17bn loss for the fiscal year. We also clearly see the impact of this on trade payables management. Trade payables has increased by a 6-year CAGR of 17.14% (2017-2023) due to favourable trade terms with its related parties (Diageo Plc owns 50.18% **GUINNESS**).

According to the announcement, the divestment aligns with Guinness Nigeria's long-term growth strategy and corresponds with Diageo plc's decision to establish a new, wholly-owned entity dedicated to managing the importation and distribution of its international premium spirits portfolio in West and Central Africa.

We also note that revenue from the segment only made up about 6%-8% of the firm's revenue, thus, we expect the divestment to further improve **GUINNESS**'s operational efficiency as it focuses on other segments. Thus, we envisage a muted impact on the company's 2024FY (year ends in June) financial performance given that the plan will only be implemented during the final quarter of the fiscal year.

A significant drawback of this divestment however is the potential loss of the company's competitive advantage. One of **GUINNESS**' notable strengths has been its extensive brand portfolio, positioning itself as the sole Total Beverage Alcohol (TBA) company in Nigeria with the capability to cater to the diverse needs of all consumer segments. However, a portion of its total product portfolio would be lost due to this move.

GUINNESS has not disclosed any immediate plans to commence the production of these products, however we do not rule out future expansion into the premium spirits category. We also perceive this decision as an opportunity for players within the Nigerian brewery sector to leverage this situation, especially since there are currently no domestically manufactured alternatives for these products. We recall that earlier this year, Nigerian Breweries Plc disclosed its intent to acquire Distell Wines and Spirits Nigeria Ltd. The acquisition if successful affords NB the right to produce wines (still and sparkling) and ciders locally and also the importation of wines, spirits and flavoured alcoholic beverages (which could serve as substitutes for these premium spirits) from Distell Group in South Africa.

Recommendation

We project a 2024FY EBITDA per share of NGN15.35 and a Target EV/EBITDA of 4.85x leading to a target price of NGN74.51. This represents an upside potential of 14.63% from its closing price of NGN65.00 as of 6th October 2023. Hence, we rate the ticker a “**BUY**”

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2022FY	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY
Revenue	206.82	229.44	256.54	287.28	321.70	353.87	389.26
Cost of sales	134.16	151.31	157.70	176.60	197.76	217.53	239.28
Gross profit	72.66	78.13	98.84	110.68	123.95	136.34	149.98
Operating expense	51.06	58.22	65.22	77.57	86.86	95.55	105.10
Operating profit	13.00	19.91	22.89	19.37	21.70	23.87	26.25
Finance cost	2.13	53.29	14.50	21.93	23.69	21.32	23.03
PBT	15.07	-22.14	13.52	3.19	4.44	9.62	11.01
PAT	7.04	-18.17	9.06	2.13	2.98	6.45	7.38
Balance Sheet	2022FY	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY
Property, Plant and Equipment	97.69	99.18	121.52	136.08	152.39	167.62	184.39
Total Debt	31.31	63.76	70.13	75.74	81.80	88.35	95.41
Total Assets	215.66	241.75	270.04	302.40	338.63	372.50	409.75
Total Equity	89.98	56.42	77.33	78.40	79.29	81.22	83.44
Total Current Liabilities	113.73	183.67	186.60	212.63	246.62	277.28	310.92
Non-Current Liabilities	11.95	1.65	6.11	11.37	12.73	14.00	15.39
Total Liabilities	125.68	185.32	192.71	224.00	259.35	291.27	326.31
Financial Ratios	2022FY	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY
Gross Margin	35.13%	34.05%	38.53%	38.53%	38.53%	38.53%	38.53%
Operating Margin	6.29%	8.68%	8.92%	6.74%	6.74%	6.74%	6.74%
Net Margin	3.41%	-7.92%	3.53%	0.74%	0.93%	1.82%	1.90%
Return on Asset	3.27%	-7.52%	3.35%	0.71%	0.88%	1.73%	1.80%
Return on Equity	7.83%	-32.20%	11.71%	2.72%	3.75%	7.94%	8.84%
Return on Invested Capital	22.38%	13.12%	27.59%	25.62%	23.28%	25.67%	28.68%
Asset Turnover	0.96x	0.95x	0.95x	0.95x	0.95x	0.95x	0.95x
Financial Leverage	2.40x	4.28x	3.49x	3.86x	4.27x	4.59x	4.91x
Current Ratio	1.03x	0.77x	0.79x	0.77x	0.75x	0.73x	0.72x
Quick Ratio	0.75x	0.58x	0.56x	0.55x	0.53x	0.52x	0.51x