

Bitter Brew: NB ends 2023FY with Historic Loss

Weakened Consumer Purchasing Power Limits Topline Growth

Nigerian Breweries Plc (NB) concluded its 2023FY with an 8.90% YoY growth in its top line, to reach NGN599.64bn from NGN550.64bn in 2022FY. The revenue growth is mostly attributed to strategic price adjustments made throughout the year, coupled with modest sales volumes in select product categories (flavoured beer and beyond beer). However, the company's revenue growth in 2023FY was tempered by the currency crisis in Q1:2023 (which dragged sales volume for the period), as well as a persistent decline in consumer disposable income, leading to reduced spending on discretionary items. An assessment of the firm's revenue-to-invested capital ratio, which fell from 2.55x in 2022FY to 2.10x despite the increase in invested capital (+31.93% YoY), further reflects the sales volume decline. Additionally, segments like Mainstream Lager recorded declines in the second and third quarters of the year.

NB began 2024 on a strong footing, achieving a remarkable 84.18% surge in revenue for Q1:2024 to NGN227.12bn, up from NGN123.31bn in Q1:2023. This significant growth can be attributed to the favourable low base effect from the prior period, when revenue was constrained. **Looking ahead, we foresee continued pressure on production volumes stemming from the persistent decline in consumer disposable income. However, the completion of the Ama brewery expansion and the ongoing Kudenda capacity expansion project (proposed to be completed in H1:2024) is expected to support revenue performance, particularly in the latter half of 2024. Thus, our revenue forecast for 2024 stands at NGN706.54bn.**

Rising Costs Takes Its Toll on Profitability

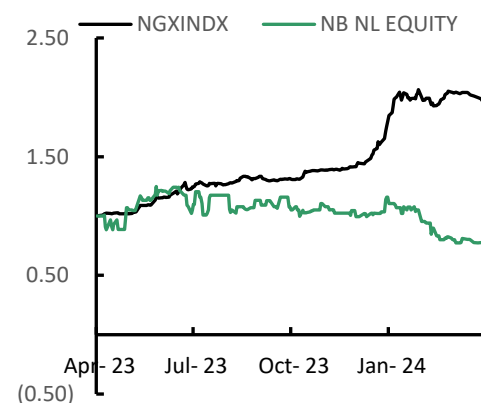
In 2023FY, NB's cost of sales registered a 14.74% surge to NGN387.03bn (vs. NGN337.31bn in the 2022FY), primarily driven by upticks in the prices of raw materials & consumables (+15.94% YoY) during the year. Consequently, the cost-to-sales ratio worsened to 64.54% from the previous year's 61.26%, resulting in a slight decrease in gross profit to NGN212.61bn (vs. NGN213.33bn in the 2022FY). Furthermore, OPEX ticked up by 4.36% YoY, fuelled by a rise in transportation costs (+15.26% YoY). This resulted in a **15.06%** decline in operating profits to NGN43.96bn from NGN51.76bn in the 2022FY. As expected, losses on foreign exchange (FX) transactions soared by 482.07% YoY to NGN153.32bn in 2023FY (compared to NGN26.34bn in the 2022FY) on the back of the significant depreciation of the Naira in 2023. Also, the company's finance costs surged by 331.81% YoY to NGN36.37bn from NGN8.42bn in the 2022FY, driven by a substantial 388.07% increase in interest expense on loans and borrowings to NGN35.06bn in the 2023FY (vs NGN7.18bn in 2022FY). Overall, profit before tax and net profit plummeted by **937.48% YoY** and **906.17% YoY** to loss positions of **NGN145.2bn** and **NGN106.31bn** respectively in 2023FY (vs NGN17.34bn and NGN13.19bn in 2022FY). Similarly, profitability metrics, such as the net margin, ROA and ROE, contracted to **17.73%**, **15.02%** and **167.98%**, respectively, from 2.39%, 2.39% and 7.33% in 2022FY.

In Q1:2024, NB's cost of sales surged by 82.85% YoY to NGN145.24bn (vs NGN79.43bn in Q1:2023) owing to the uptick in prices of raw materials and consumables (119.84% YoY) during the period. The loss on FX transactions continued into the quarter as it surged by 397.55% YoY to NGN72.85bn (vs NGN14.64bn in Q1:2023) due to the 26.50% depreciation of the Naira in Q1:2024. Similarly, finance cost spiked by 284.37% YoY to stand at NGN18.14bn (compared to NGN4.72bn in Q1:2023). Consequently, bottom-line plunged by **386.13% YoY** to **NGN52.09bn** (vs **NGN10.72bn** in Q1:2023). **For 2024FY, we anticipate a continuous rise in input costs, driven by prevailing inflationary pressures which is expected to exert further pressure on profitability margins. Nevertheless, the company's recent move to temporary close two of its factories in a bid to adapt to the tumultuous operating environment could reduce operational expenses in 2024FY. Furthermore, the reduced volatility in the exchange rate may curtail the extent of foreign exchange losses incurred by the company and slightly ease the pressure on profitability.**

Debt Dilemma: Nigerian Breweries' Solvency Sours Amid Rising Debts

As of Q1:2024, NB's total debt soared by 37.48% YTD to NGN469.64bn from NGN341.60bn in 2023FY. The increase is linked to a significant rise in short term debt (majorly loans and borrowing from banks). Furthermore, due to the net loss incurred during the period, the company's retained earnings deteriorated significantly as of Q1:2024, plummeting to **NGN78.36bn** from **NGN26.27bn** in 2023FY. Consequently, this eroded the company's equity position to a mere NGN11.41bn in Q1:2024 (vs. NGN63.28bn in 2023FY). The increase in debt, combined with the decrease in equity, had an adverse effect on solvency ratios, with the debt-to-equity and the debt-to-asset ratios climbing to 41.51x and 0.55x as at Q1:2024 (vs 5.40x and 0.43x in 2023FY) reflecting the company's increasing reliance on debt to fund its assets. **In 2024, we anticipate a further rise in debt levels hinged on the impact of inflationary pressure and the necessity to finance operations, coupled with a potential repricing of existing FCY loans as the Naira depreciates further. Meanwhile, we note the company's intention to raise NGN600.00bn through a rights issue. If successful, this initiative would fortify NB's capital reserves and enhance its capacity to withstand future operational shocks.**

Company	NB
Valuation	
EPS	NGN14.37
BVPS	NGN1.11
P/E	1.78
P/BV	23.05
Target EV/EBITDA	4.00x
Dec-2024 Exp. EBITDA per share	NGN9.46
Dec 2023 Target price	NGN37.82
Current Price	NGN24.00
Up/Downside Potential	+57.60%
Ratings	BUY
Key metrics	
ROE	1293.88%
ROA	17.24%
Net margin	20.99%
Asset Turnover	0.82x
Leverage	75.07x
Yr Hi	NGN42.00
Yr Lo	NGN24.00
YTD return	33.33%
Beta	0.80
Adjusted Beta	0.87
Shares outstanding	10.28bn
Market cap [NGN]	246.63bn
Financial year-end	December
Most Recent Period	Q1:2024



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Recommendation

We project a 2024FY target price of **NGN37.82** for the stock. This is based on a target EBITDA per share of NGN9.46 and a target EV/EBITDA ratio of 4.00x. This also reflects a potential upside of **57.60%** relative to its closing price of NGN24.00 as of May 9th, 2024.

Sensitivity Analysis of Dec-2024 Target Price to key model inputs						Min	31.35
EBITDA per share						Max	44.80
		3.50	3.75	4.00	4.25	4.50	
Target EV/EBITDA	8.96	31.35	33.58	35.82	38.06	40.30	
	9.21	32.22	34.52	36.82	39.13	41.43	
	9.46	33.10	35.46	37.82	40.19	42.55	
	9.71	33.97	36.40	38.82	41.25	43.68	
	9.96	34.85	37.34	39.82	42.31	44.80	

Financial Highlights and Forecasts (NGN'bn)

<i>Profit & Loss Account</i>	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Revenue	550.64	599.64	706.54	774.58	850.73	936.06	1028.08
Cost of sales	297.71	339.00	409.62	445.20	480.45	528.65	580.61
Gross profit	252.93	260.64	296.92	329.39	370.27	407.41	447.47
Operating expense	163.98	171.13	199.75	222.86	244.77	269.32	295.80
Operating profit	49.34	41.48	39.02	55.91	74.25	81.92	90.29
Finance cost	8.42	36.37	54.40	58.70	57.44	57.67	55.65
PBT	17.34	-145.22	-98.78	5.16	25.56	33.85	45.20
PAT	13.19	-106.31	-98.78	3.46	17.13	22.68	30.28
<i>Balance Sheet</i>	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Property, Plant and Equipment	358.97	441.43	540.31	637.36	721.85	819.23	923.50
Total Debt	122.28	341.63	375.76	398.54	474.31	559.04	655.59
Total Assets	619.89	795.87	871.00	949.06	1042.76	1161.43	1292.60
Total Equity	179.91	63.28	63.78	69.26	71.08	73.42	76.51
Total Current Liabilities	407.70	584.47	628.69	554.58	639.86	757.19	923.23
Non-Current Liabilities	32.27	148.12	223.78	255.92	304.22	335.92	336.29
Total Liabilities	439.97	732.59	852.47	810.50	944.08	1093.11	1259.52
<i>Financial Ratios</i>	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Gross Margin	45.93%	43.47%	42.02%	42.52%	43.52%	43.52%	43.52%
Operating Margin	8.96%	6.92%	5.52%	7.22%	8.73%	8.75%	8.78%
Net Margin	2.39%	-17.73%	-13.98%	0.45%	2.01%	2.42%	2.95%
Return on Asset	2.39%	-15.02%	-11.85%	0.38%	1.72%	2.06%	2.47%
Return on Equity	7.33%	-167.98%	-154.88%	4.99%	24.10%	30.89%	39.58%
Return on Invested Capital	13.76%	3.83%	9.99%	8.54%	10.07%	9.99%	0.00%
Asset Turnover	0.89x	0.75x	0.81x	0.82x	0.82x	0.81x	0.80x
Financial Leverage	3.45x	12.58x	13.66x	13.70x	14.67x	15.82x	16.89x
Current Ratio	0.38x	0.39x	0.36x	0.38x	0.34x	0.32x	0.29x
Quick Ratio	0.18x	0.18x	0.19x	0.17x	0.14x	0.12x	0.11x

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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-2024	24.00	47.46	37.82	BUY	BUY
08-Jan-2024	37.05	44.30	47.46	BUY	BUY

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Nigerian Breweries Plc.	

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