

Lower Volume & Surging Costs, Squeezes GUINNESS Profitability

Revenue Performance Driven by Robust Growth in Major Product Segments

Guinness Nigeria Plc reported a remarkable 30.53% YoY revenue growth in its 2024FY (*year end is June*), with revenue increasing to NGN299.49bn (from NGN229.44bn in 2023FY). This impressive performance was mostly anchored on price increments across its products as sales volume during the year declined by 17.90% YoY due to dwindling consumer wallets and lower consumer purchasing power. Both Domestic and export sales improved significantly: - domestic sales (c.99% of revenue) increased by 30.17% YoY to NGN295.93bn, while exports surged by 69.95% YoY to NGN3.56bn. Also, revenue ticked up significantly across key product segments: - including Malts (+52.00% YoY), Mainstream spirits (+10.00% YoY), and Brand Guinness (+15.00% YoY). The Malt segment was the largest contributor to revenue, accounting for 36.60% of the total income, followed by Brand Guinness, Mainstream Spirits, Ready-to-drink and Premium spirits (30.50%, 16.30%, 9.80% and 6.70%, respectively). Notably, the company's performance in its H2 financial year (January – June 2024) was particularly strong, generating 52.39% of the full-year revenue, with the increase in product prices and higher volumes sold during festive celebrations like Easter, Eid Fitri, and Eid Malud providing a significant uplift to revenue standing.

Looking ahead, we expect the company's strong brand presence and product innovation strategies to drive sustained top-line growth. Moreover, management plans to harness its digital sales channels and Tolaram (Guinness Nigeria Plc's new majority shareholder)'s distribution network (to boost volume growth in key segments like ready-to-drink and mainstream spirits) could lead to a rebound in demand. Hence, we project a 14.95% YoY revenue increase for 2025FY to NGN343.75bn.

Revenue Gains Fall Short as Cost Pressures Escalate for GUINNESS in 2024FY

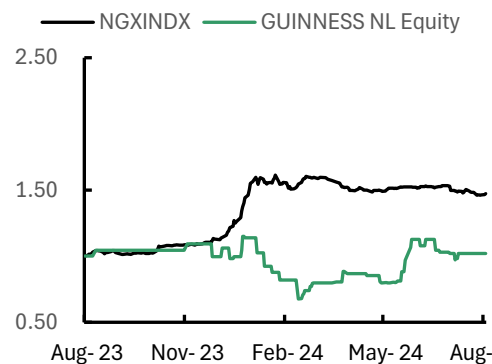
In 2024FY, the company's cost of sales surged at a pace that outstripped its revenue growth, rising to NGN208.03bn (+37.49% YoY) from NGN151.31bn in 2023FY. This increase was largely driven by a 39.83% YoY surge in raw materials and consumables costs, which account for c.72% of the total cost of sales. Despite sourcing more than half of its raw materials domestically, fluctuations in the foreign exchange market, particularly the depreciation of the Naira, significantly impacted the prices of imported inputs, contributing to around 23% of the increase in the cost of sales. As a result, the cost-to-sales ratio deteriorated to 69.46% from 65.95% in 2023FY. Additionally, operating expenses rose by 18.72% YoY, driven by concurrent increases in administrative expenses (+14.52% YoY) and marketing and distribution costs (+20.46% YoY). However, operating profit grew by 8.78% to NGN25.41bn from NGN23.36bn in 2023FY, supported by the significant increase in revenue. Furthermore, while finance income benefited from substantial gains in the remeasurement of foreign currency balances (+179.41% YoY to NGN21.76bn), finance costs surged by 126.80% YoY to NGN120.85bn, primarily due to exchange losses on intercompany loans (+154.46% YoY) and foreign currency balance remeasurement (+316.77% YoY), as a result of the Naira's depreciation during the period. However, approximately 88% of the gains from remeasuring foreign currency balances and 36.53% of foreign exchange losses are unrealized, leading to a reduced impact on the company's cashflow from operations. Overall, Guinness Nigeria Plc concluded 2024FY with a net loss of **NGN54.77bn**, compared to **NGN18.16bn** in 2023FY. As a result, key profitability metrics worsened, with net margin, return on assets (ROA), and return on equity (ROE) declining to **18.29%**, **24.22%**, and **2533.78%**, respectively, from **7.92%**, **7.52%**, and **32.30%** in 2023FY. **Going forward, we anticipate that the cost of sales will remain elevated as the continued depreciation of the Naira puts pressure on import costs. Additionally, with the likely persistence of Naira depreciation, further foreign exchange losses are expected. However, we foresee an improvement in distribution efficiency as the company leverages Tolaram's distribution network to enhance market reach. Moreover, we expect better bottom-line performance in the upcoming fiscal year, driven by projected revenue growth.**

Debt Reduction Shadowed by Rising Operating Liabilities

In 2024FY, the company's debt burden decreased by 37.05% to NGN40.13bn from NGN63.76bn in 2023FY. This reduction was primarily due to a significant drop in its letters of credit, which fell to NGN814.15mn from NGN45.83bn in the previous financial year. However, the revaluation of foreign-denominated related party loans, resulting from the Naira's depreciation during the period, caused a 119.35% YoY increase in the company's related party loan balance. Additionally, **GUINNESS'** total liabilities grew by 47.46% YoY, driven by a 58.14% YoY increase in trade and other payables. It is worth noting that current liabilities account for 99.43% of the company's total liabilities, with all of its debt classified as current obligations. Consequently, key liquidity ratios, including the current, quick, and cash ratios, declined to 0.47x, 0.28x, and 0.21x, respectively (compared to 0.77x, 0.58x, and 0.50x in 2023FY), indicating a weakened capacity to meet short-term obligations. Interestingly, **GUINNESS**

Company	GUINNESS
Valuation	
EPS	NGN25.00
BVPS	NGN0.99
P/E	2.54x
P/BV	2.35x
Target EV/EBITDA	5.42x
June 2025 Exp. EBITDA per share	NGN14.69
June 2025 Target Price	NGN79.69
Current Price	NGN63.50
Up/Downside Potential	25.50%
Ratings	BUY
Key metrics	
ROE	2535.56%
ROA	24.22%
Net margin	18.29%
Asset Turnover	1.32x
Leverage	104.69x
Yr Hi	NGN71.50
Yr Lo	NGN42.05
YTD return	3.79%
Beta	0.02
Adjusted Beta	0.34

Shares outstanding	2.19bn
Market cap [NGN]	139.09bn
Financial year end	June
Most Recent Period	2024FY



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maintained a positive net cash flow from operations, increasing to NGN80.14bn in 2024FY from NGN34.38bn in 2023FY. This improvement was largely driven by the company's successful management of its working capital, specifically its trade and other payables, which increased by 125.19% YoY. Consequently, cashflow-to-debt and cashflow-to-liabilities ratios advanced to 2.00x and 0.36x, respectively, from 0.54x and 0.19x in 2023FY. Nevertheless, the company's earnings quality remained negative at 1.46x due to its loss-making position for the year.

Recommendation

We estimate the fair value of **GUINNESS** to be NGN79.69, implying a potential upside of 25.50% from its current price of NGN63.50 as of September 5th, 2024. Hence, we rate the ticker a “**BUY**”.

Metrics	Value
Discounted Cashflow Approach	NGN84.96
Relative Valuation	NGN71.79
Fair Value	NGN79.69

Chart 1: Sensitivity Analysis

Sensitivity Analysis of June 2025 Target Price to key input models							Min	69.88
							Max	90.00
EPS								
	44.30	14.19	14.44	14.69	14.94	15.19		
Target P/BV	4.92x	69.88	71.12	72.35	73.58	74.81		
	5.17x	73.43	74.73	76.02	77.31	78.61		
	5.42x	76.98	78.34	79.69	81.05	82.40		
	5.67x	80.53	81.95	83.36	84.78	86.20		
	5.92x	84.07	85.56	87.04	88.52	90.00		

Profit & Loss Account	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY	2029FY
Revenue	229.44	299.49	372.73	448.95	531.81	624.53	729.90
Cost of sales	151.31	208.03	246.68	292.63	334.89	393.27	448.68
Gross profit	78.13	91.46	126.06	156.32	196.92	231.25	281.22
Operating expense	58.30	69.21	89.26	107.51	127.36	149.56	174.79
Operating profit	19.84	22.25	22.10	14.20	21.60	37.34	43.85
Finance cost	53.29	53.29	120.85	52.92	16.64	14.36	14.85
PBT	-22.14	-73.68	-16.13	32.16	55.21	66.85	91.07
PAT	-18.17	-54.77	-10.81	21.55	36.99	44.79	61.02
Balance Sheet	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY	2029FY
Property, Plant and Equipment	99.18	101.32	106.02	112.07	119.53	128.51	139.19
Total Debt	63.76	40.13	43.34	46.81	50.56	54.60	58.97
Total Assets	241.75	226.13	233.01	288.90	341.76	419.96	494.77
Total Equity	56.42	2.16	-8.65	-2.18	8.91	22.35	40.66
Total Current Liabilities	183.67	222.68	237.39	284.47	327.68	388.16	445.52
Non-Current Liabilities	1.65	1.28	4.27	6.62	5.16	9.45	8.60
Total Liabilities	185.32	223.97	241.66	291.08	332.84	397.61	454.12
Financial Ratios	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY	2029FY
Gross Margin	34.05%	30.54%	33.82%	34.82%	37.03%	37.03%	38.53%
Operating Margin	8.65%	7.43%	5.93%	3.16%	4.06%	5.98%	6.01%
Net Margin	-7.92%	-18.29%	-2.90%	4.80%	6.96%	7.17%	8.36%
Return on Asset	-7.52%	-24.22%	-4.64%	7.46%	10.82%	10.67%	12.33%
Return on Equity	-32.20%	-	124.99%	-987.10%	414.97%	200.40%	150.08%
Return on Invested Capital	12.22%	-398.08%	-563.25%	-60.80%	-48.59%	-41.38%	-37.11%
Asset Turnover	0.95x	1.32x	1.60x	1.55x	1.56x	1.49x	1.48x
Financial Leverage	4.28x	104.62x	-26.94x	-132.34x	38.34x	18.79x	12.17x
Current Ratio	0.77x	0.47x	0.53x	0.62x	0.68x	0.75x	0.80x
Quick Ratio	0.58x	0.28x	0.29x	0.38x	0.44x	0.52x	0.57x

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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
13-July-2024	67.00	74.51	77.34	BUY	BUY
8-January-2024	61.00	77.34	74.51	BUY	BUY

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Guinness Nigeria Plc.	

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