

MERISTEM



NB | RECOMMENDATION ON RIGHTS ISSUE

SEPTEMBER 2024

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Why Invest More?

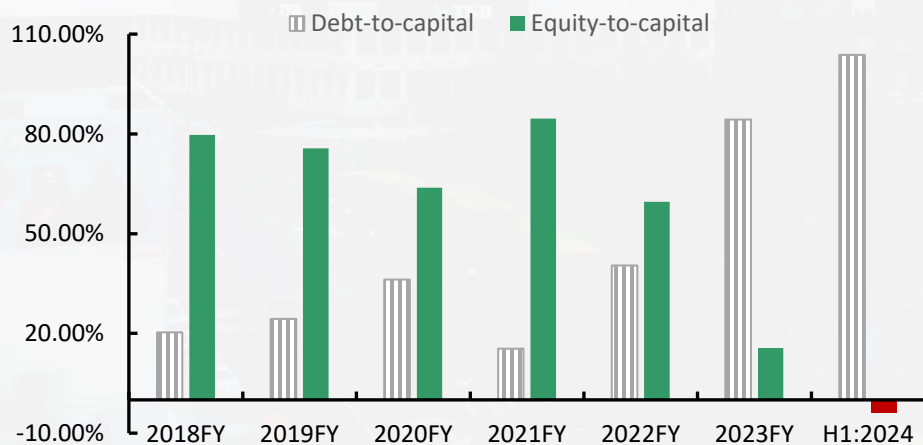
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Type	Rights Issue
Total Number of Shares on Offer	22.61 billion ordinary shares of 50 kobo each
Price	NGN26.50 per share
Rights Issue Ratio	11 new ordinary share for every 5 ordinary shares
Qualification Date	July 12, 2024
Opening Date	September 2, 2024
Closing Date	October 11, 2024
Use of Proceeds	The proceeds from the issue are expected to be utilised for the following: <ul style="list-style-type: none">• To shore up its equity base• To restore sustainable growth and profitability and enhance operational and financial stability,• To eliminate foreign exchange-denominated debts and reduce its local debts in order to mitigate its exposure to the continuing economic challenges.

Nigerian Breweries Plc (**NB**), a subsidiary of Heineken N.V., is the pioneering and largest brewing company in Nigeria, with over seven decades of operational history. Established on June 2, 1946, and listed on the Nigerian Stock Exchange (NGX) in 1973, the company has consistently held a dominant position in the Nigerian brewing industry. **NB** specializes in brewing, packaging, and marketing beer, alcoholic-flavoured drinks, and non-alcoholic beverages. The company has an impressive brewing capacity of 15.4 million hectolitres per annum, operates nine state-of-the-art breweries and two malting facilities in Aba and Kaduna, and boasts a robust distribution network of over 40 depots and 500 trucks, ensuring seamless nationwide delivery.

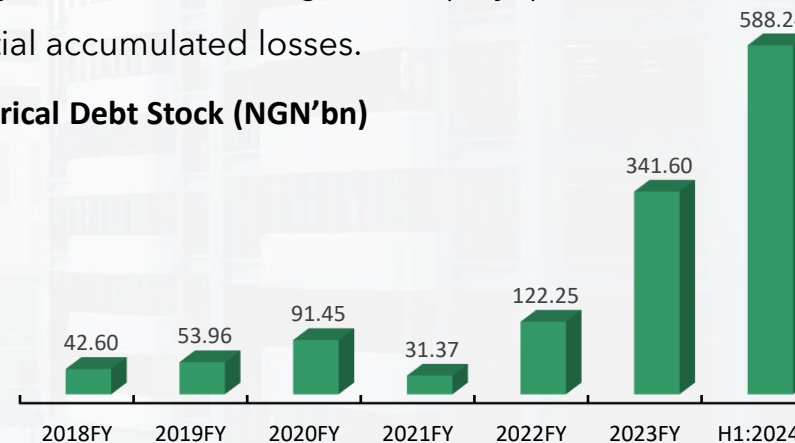
Historical Capital Structure (NGN'bn)



Source: Company Financials, Meristem Research

Over the past five years, **NB**'s debt burden has risen from NGN53.96bn in 2019 to NGN341.60bn in 2023FY (and NGN588.24bn as of H1:2024), pushing its debt-to-capital ratio from 24.34% in 2019 to 84.37% in 2023. Equity contributions have also declined in tandem (15.63% in 2023 from 75.66% in 2014). Moreover, the company has issued 2.28bn additional shares since 2019, increasing total shares to 10.28bn by 2023FY. As of H1:2024, the company's stands at a negative equity position of **NGN21.22bn** owing to substantial accumulated losses.

Historical Debt Stock (NGN'bn)

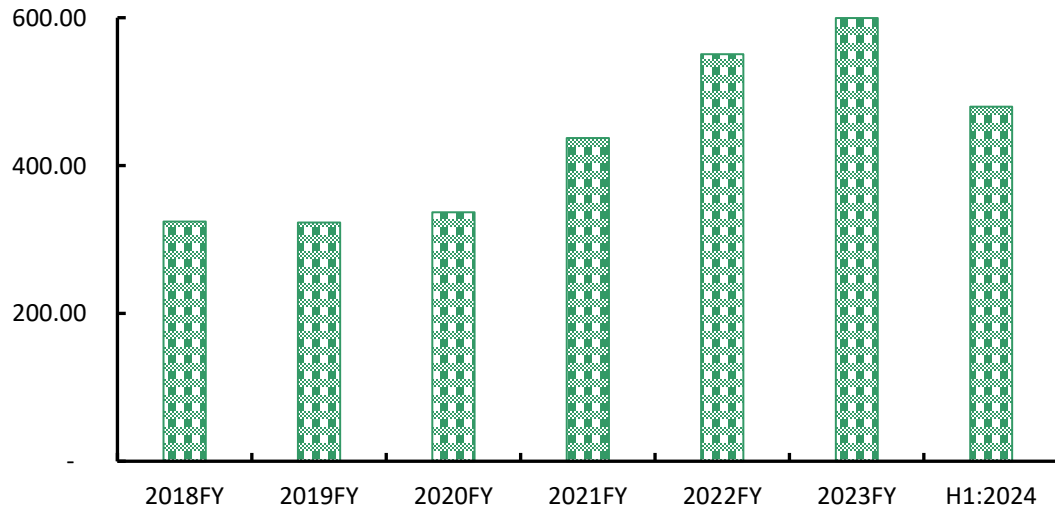


Source: Company Financials, Meristem Research

As part of its financing strategy, **NB**, on April 29, 2024, disclosed its plans to raise NGN600bn through rights issues. With this, the company aims to bolster its capital reserves and resilience to future operational challenges. Given the current high-interest environment and the company's current debt burden, opting to raise capital through the rights issue proves to be a strategic decision.

Nigerian Breweries Plc (**NB**) has achieved steady revenue growth, recording a three-year CAGR of 21.17%, largely driven by strategic price increases to counter rising input costs and modest growth in sales volumes, particularly in the flavoured beer and beyond beer categories. In 2023FY, **NB** logged an 8.90% YoY increase in revenue to NGN599.64bn from NGN550.64bn in 2022FY. As of H1:2024, the company reported a remarkable 72.94% surge in revenue to NGN479.77bn, up from NGN277.42bn in H1:2023, boosted by the favourable low base effect from the previous period's constraints.

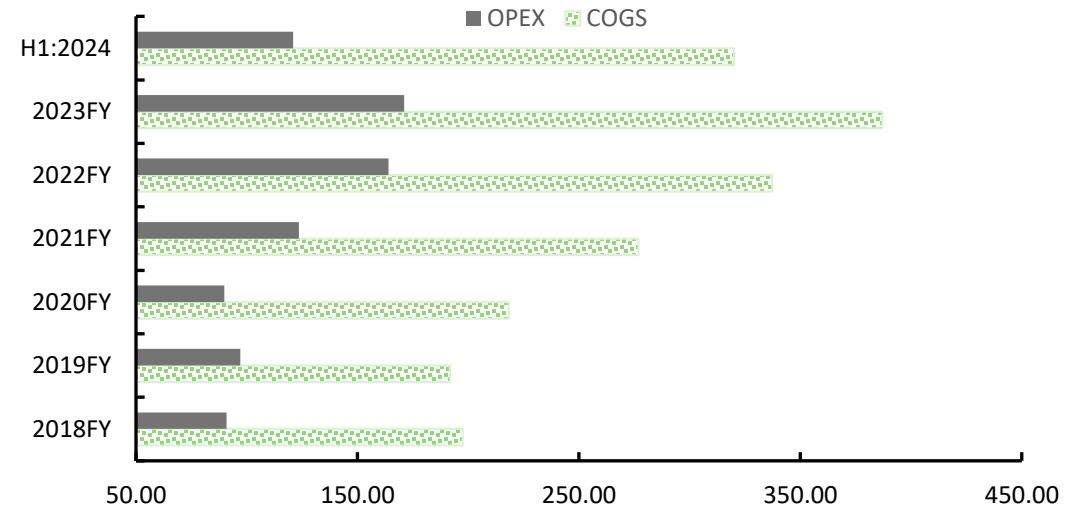
Historical Revenue Performance (NGN'bn)



Source: Company Financials, Meristem Research

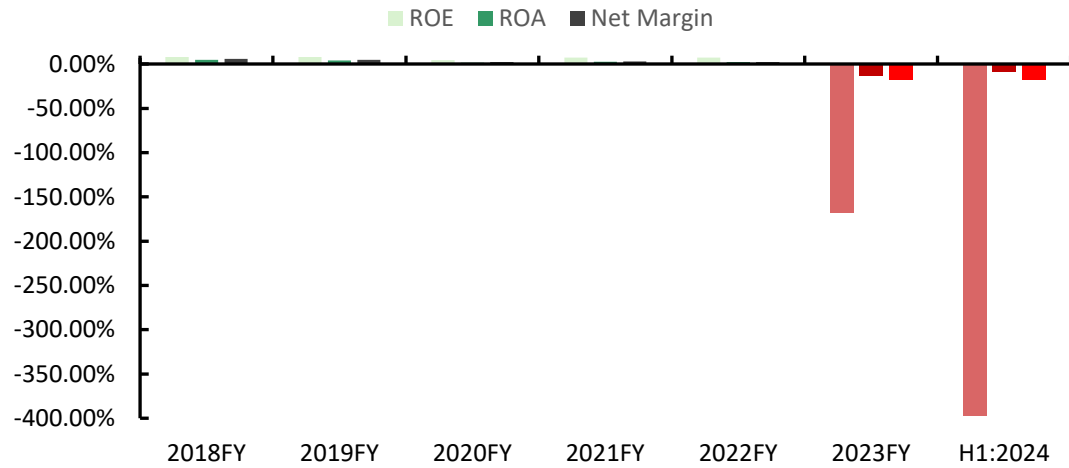
Cost of sales has risen alongside revenue over the years, largely driven by rising global commodity prices and higher import costs (attributed to the company's dependence on imports for essential inputs, which exposed it to foreign exchange volatility). In 2023FY, the cost of sales continued its upward trend to NGN387.03bn (+14.74% YoY from NGN337.31bn in 2022FY), primarily due to a 15.94% YoY rise in raw materials and consumables costs. The upward cost trend persisted in H1:2024, with the cost of sales rising by 93.88% YoY to NGN320.08bn, up from NGN165.09bn in H1:2023.

Trend in Cost of Sales and Operating Expense (NGN'bn)



Source: Company Financials, Meristem Research

Profitability Metrics (NGN'bn)



Source: Company Financials, Meristem Research

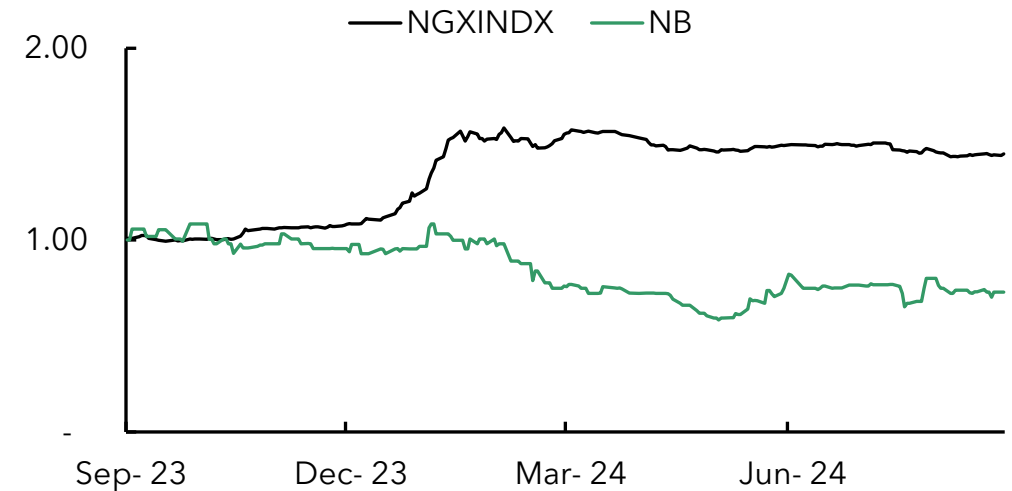
The rising cost pressures coupled with substantial foreign exchange (FX) losses have severely affected the company's profitability, leading to a loss after tax of **NGN106.31bn** in 2023FY, a sharp decline from the NGN13.19bn profit recorded in 2022FY. In H1:2024, the company reported a loss of **NGN89.99bn** (vs. **NGN66.55bn** in the prior period).

Consequently, profitability metrics, including return on equity (ROE), return on assets (ROA), and net margin, dropped sharply to **167.98%** and **15.02%**, and **17.73%** respectively, from 7.33%, 2.39% and 2.39% in 2022FY.

NB's Dividend History

Year	DPS (NGN)	Dividend Yield (%)
2019	2.01	4.88%
2020	0.94	2.00%
2021	2.04	5.31%
2022	1.43	3.50%
2023	Nil	Nil

NB's Price Movement



Source: Bloomberg, Meristem Research

Peer Comparison

	Company	Revenue (NGN'bn)	EBITDA (NGN'bn)	Profit (NGN'bn)	Total Asset (NGN'bn)	Net Asset (NGN'bn)	EPS (NGN)	EV/ EBITDA	P/E	P/B
1	NB	801.99	103.95	143.91	948.56	21.22	14.00	7.98x	1.93x	13.08x
2	INTBREW	367.67	117.17	153.22	705.02	452.38	0.91	8.02x	4.89x	1.66x
3	GUINNESS	299.49	35.49	54.77	226.13	2.16	25.00	5.10x	2.54x	64.35x
4	CHAMPION	16.54	4.10	0.05	18.76	10.81	0.01	-	513.06x	2.14x

Nigerian Breweries Plc is exposed to various risks across macroeconomic, industry-related and company operational risks.

➔ **Exposure to Foreign Exchange Volatility:** - A major macroeconomic risk is the company's exposure to foreign exchange. The company requires imported raw materials for its production activities which ultimately exposes it to exchange rate volatility.

➔ **Industry Competitiveness:** - The company operates in a highly competitive industry, exposing it to intense rivalry amongst other industry players vying for greater market share.

➔ **Cyclical nature of Industry:** - Furthermore, the industry in which the company operates is very cyclical, recording positive performance in a booming economy whilst struggling during an economic downturn due to the discretionary nature of the product.

➔ **Regulatory Risks:** - The company is also subject to regulatory risk resulting from a change in Government policies on taxation and other charges on alcoholic beverages which could impact on their operating cost. Moreover, due to the discretionary nature of the products, the company might not be able to pass on such costs, thereby discouraging consumers from purchasing their products.

➔ **Change in Consumer Preference:** - Potential changes in consumers' preferences resulting from health concerns could cause a shift in demand for the company's products, thus posing a risk to company's performance.



Outlook

We expect the company to continue delivering strong topline growth, primarily driven by price hikes across product segments. Moreover, the completed expansion of the Ama brewery and the ongoing Kudenda capacity enhancement project (set for completion in H1:2024), alongside the acquisition of Distell Wines & Spirits Ltd., could further bolster revenue, particularly in the latter half of the year. However, production volumes are likely to remain under pressure due to declining consumer disposable income. Also, we anticipate rising input costs, fueled by inflationary pressure and the continued impact of FX on import bills. Nevertheless, the company's decision to temporarily close two of its factories to adjust to the challenging operating environment might help reduce operating expenses in 2024FY. Additionally, reduced exchange rate volatility could lessen foreign exchange losses and slightly ease profitability pressures. Furthermore, the company's plan to use proceeds from this capital raise to settle foreign-currency liabilities could minimise exposure to Naira depreciation, improving profitability ratios. Similarly, **NB's** plans to reduce domestic debt may lower interest expenses, boosting earnings prospects in 2024. Also, the anticipated reduction in liabilities is expected to improve the company's liquidity ratios in 2024FY.

Recommendation

Despite **NB's** historically strong financial performance, the company is expected to face ongoing cost pressures, which may keep its profitability under strain in the near term. However, long-term investors can capitalize on the current attractive offer price to increase their holdings of the stock.

Metrics	Value
Risk-Free Rate	19.23%
Adjusted Beta	0.88
Cost of Equity	25.50%
Techniques	
Discounted Cashflow	NGN31.98
Relative Valuation	NGN46.64
Equity Value Per Share	NGN36.37
Current Share Price	NGN27.00
Rights Issue Price	NGN26.50
Upside Potential	37.26%

01

Market Dominance

NB is the first and largest brewery company in Nigeria, holding over 50% of the brewery industry market share. It is the biggest brewery company in Nigeria, both in terms of revenue and market cap.

02

Expansion Strategy

NB's investment drive is highlighted by its various acquisitions, including the recent acquisition of an 80% stake in Distell Wines and Spirits Nigeria Ltd., expanding its operations to become a company with the highest number of breweries in Nigeria.

03

Cost Efficiency

NB focuses on cost minimization through backward integration initiatives, developing Sorghum hybrids to reduce reliance on imported raw materials and mitigate the impact of global food grain price fluctuations and currency exchange volatility.

04

Fair Value

Using a blend of discounted cashflow and relative valuation techniques, we estimate a fair value of NGN36.37 for **NB**, which represents a 37.26% upside potential relative to the offer price.

05

Value to Shareholders

NB has consistently upheld a dividend payout policy designed to enhance investor returns alongside capital gains. For the 2022 fiscal year, the company declared a final dividend of NGN1.03 per share.

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