

Guinness Nigeria Plc.

Further Downside in Sight. SELL!

The share price of GUINNESS has -- justifiably -- fallen by 2.3% since January 26 following the release of the disappointing first half 2016/17 result. **The sell-offs notwithstanding, we anticipate further decline (13%) in the share price from current level (N65.00), driven by slower-than-expected performance recovery over the near term, and importantly, the potential dilutive impact of the proposed capital raising exercise. SELL.**

That GUINNESS will overturn the current loss after tax in the second half (January-June 2017) remains to be seen. We forecast loss to expand to N5.1 billion by year end on persistent cost pressure. The vulnerability of costs to foreign exchange fluctuations remains elevated, as FX scarcity is expected to persist amid tamer supply outlook. Although flexibility over the adjustment of unit prices has slightly improved (across the FMCG universe) with the reality of local and imported inflation, we think the impact on GUINNESS' margins will be muted by higher risk of negative mix, considering the severity of the weakened aggregate purchasing power. **Brewery products do not belong to the category of consumer goods (food and staples) which have lesser price elasticity even in Nigeria's current episode of depressed disposable income.**

The Board recently received shareholder approval for a capital raise of N40 billion via rights issue. **We expect that the rights will be offered to shareholders at N60 per share, thus potentially increasing the shares outstanding by 44% assuming all current shareholders exercise their rights.** The dilutive impact of the new issues was also taken into consideration in arriving at our new target price of N56.72 (previously N78.24). On the positive, the deployment of the rights proceeds to the settlement of outstanding debt (at 137% of equity in H1-16/17) should have visible impact on profitability by taming finance charges (at 5-year CAGR of 70% by end-2016FY).

Worthy of note in the latest Q2-16/17 result was the 29.8% y/y and 58.4% q/q growth in revenue, achieved through a combination of increased sales from exports, spirits expansion, and continued resilience of the value beer category. We think these factors will remain important drivers of growth (+24% in 2017FY), more so, given the renewed commitment to route-to-consumers (a major weak spot in GUINNESS' operation).

Income Statement (N'bn)	H1-17	H1-16	Q2-17	Q2 y/y	Q2 q/q
Turnover	59.49	49.84	36.47	29.8%	58.4%
Cost of sales	-43.94	-28.44	-27.49	71.8%	67.2%
Gross Profit	15.55	21.40	8.98	-25.8%	36.6%
Opex	-16.00	-18.25	-10.02	-2.3%	67.3%
Other income	0.37	0.23	0.27	216.0%	171.7%
Operating profit	-0.08	3.37	-0.77	-139.9%	-212.4%
Interest expenses	-6.11	-2.21	-2.75	146.6%	-18.3%
Interest income	1.54	0.49	1.07	232.1%	129.0%
PBT	-4.66	1.65	-2.45	-315.9%	10.7%
Taxation	-0.01	-0.48	0.01	-102.6%	-161.5%
PAT	-4.67	1.17	-2.44	-401.42%	9.61%

SELL

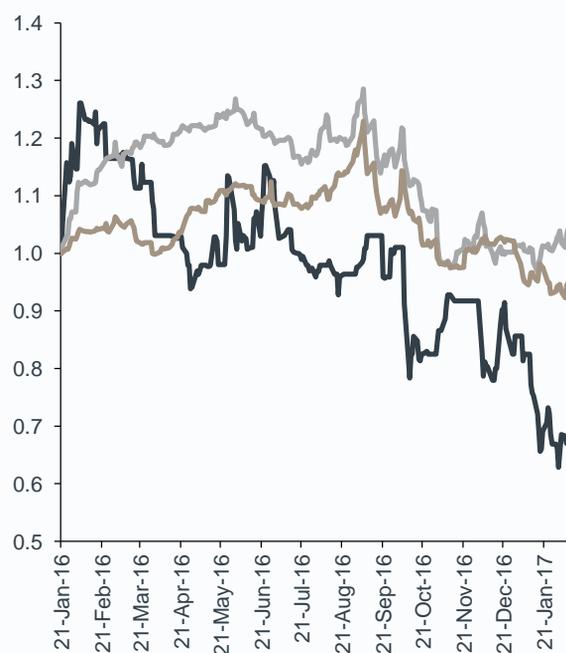
Target Price (N)	56.72
Current Price (N)	65.00
Implied Return (%)	-13.00

Company Data

NSE Code	GUINNESS
Bloomberg Code	GUINNESS:NL
Reuters Code	GUINNES.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	141.22
Free Float (%)	45.61

Ratios	H1-17	H1-16	2017FY
Gross margin	26.14%	42.93%	28.19%
Opex margin	26.90%	36.62%	26.95%
EBIT margin	-0.14%	6.77%	1.76%
PAT margin	-7.85%	2.35%	-3.99%
RoAE	-23.07%	5.31%	-13.76%
EPS (N)	-3.10	0.78	-3.36

Price movement (GUINNESS vs. Benchmark Indices)



Financial Statement (N'billion).

Income Statement (N'bn)						Profitability Ratios					
	2015a	2016a	2017f	2018f	2019f		2015a	2016a	2017f	2018f	2019f
Turnover	118.50	101.97	126.60	139.26	151.79	Gross profit margin	47.17%	41.00%	28.19%	29.19%	30.19%
Cost of sales	-62.60	-60.16	-90.92	-98.62	-105.97	EBITDA margin	22.79%	13.08%	9.04%	10.06%	11.10%
Gross profit	55.89	41.81	35.68	40.64	45.82	Operating profit margin	13.22%	4.33%	1.76%	2.81%	3.87%
M&D expenses	-27.11	-24.89	-22.52	-24.68	-26.80	PBT margin	9.11%	-2.30%	-3.99%	1.92%	2.96%
Administrative expenses	-13.83	-13.01	-11.60	-12.71	-13.81	Net profit margin	6.58%	-1.98%	-3.99%	1.36%	2.09%
Other income/expenses	0.72	0.50	0.67	0.67	0.67	RoAE	16.69%	-4.48%	-13.76%	3.75%	4.73%
Operating profit/loss	15.67	4.42	2.23	3.92	5.88	RoAA	6.12%	-1.56%	-3.42%	1.17%	1.89%
Interest expenses	-5.58	-7.95	-9.12	-2.09	-2.28	Liquidity Ratios					
Interest income	0.71	1.19	1.84	0.85	0.89	Working capital (N'bn)	-12.59	-19.24	-21.97	-11.49	-17.63
Profit before tax	10.80	-2.35	-5.05	2.68	4.49	Current ratio	0.73x	0.71x	0.75x	0.86x	0.80x
Taxation	-3.00	0.33	0.00	-0.79	-1.32	Quick ratio	0.49x	0.52x	0.49x	0.55x	0.52x
Profit after tax	7.79	-2.02	-5.05	1.89	3.17	Cash ratio	0.13x	0.09x	0.13x	0.14x	0.13x
Financial Position (N'bn)						Efficiency Ratios					
Property, plant and equipment	87.75	87.23	89.41	92.58	96.40	Fixed assets turnover	1.35x	1.17x	1.42x	1.50x	1.57x
Intangible assets	0.94	1.71	1.58	1.65	1.74	Current assets turnover	3.54x	2.13x	1.89x	2.01x	2.11x
Prepayments	0.01	0.18	0.22	0.25	0.28	Total assets turnover	0.97x	0.74x	0.80x	0.85x	0.89x
Other receivables	0.02	-	0.02	0.03	0.05	Inventory turnover	5.17x	5.06x	4.95x	4.08x	4.22x
Total non-current assets	88.74	89.12	91.23	94.52	98.46	Receivables turnover	6.83x	4.85x	4.43x	4.47x	4.69x
Inventories	10.75	13.02	23.74	24.59	25.62	Payables turnover	2.01x	1.74x	2.08x	1.67x	1.46x
Trade and other receivables	15.50	26.51	30.64	31.74	33.06	Days inventory outstanding	71	72	74	89	86
Prepayments	1.45	2.49	1.27	1.33	1.40	Days collection/sales outstanding	53	75	82	82	78
Cash and cash equivalents	5.80	5.84	11.37	11.66	12.02	Days payable outstanding	90	161	123	117	114
Total current assets	33.51	47.87	67.02	69.32	72.09	Cash conversion cycle	34	-14	33	54	51
Total assets	122.25	136.99	158.25	163.83	170.55	Investment Ratios					
Loans and borrowings	12.25	14.03	18.63	-	-	Earnings per share (N)	5.18	-1.34	-3.36	0.87	1.46
Non current financial liabilities	-	-	-	-	-	Dividend per share (N)	3.20	3.20	3.20	3.20	3.20
Employee benefits	2.21	1.25	1.67	1.26	1.41	Payout	62%	-239%	-95%	368%	220%
Deferred tax liabilities	13.34	12.94	17.18	12.91	14.35	Dividend yield	1.03%	2.66%	4.92%	4.92%	4.92%
Total non-current liabilities	27.80	28.22	37.48	14.17	15.76						
Bank overdraft	1.47	2.94	3.91	3.80	4.11						
Current tax liabilities	2.28	0.59	0.79	0.60	0.68						
Dividend Payable	3.90	3.86	5.13	3.87	4.30						
Loans and borrowings	6.97	22.20	29.46	3.80	4.11						
Trade and other payables	31.48	37.53	49.70	68.74	76.51						
Total current liabilities	46.10	67.11	88.99	80.80	89.72						
Total liabilities	73.91	95.33	126.46	94.98	105.48						
Share Capital	0.75	0.75	0.75	1.09	1.09						
Share premium	8.96	8.96	8.96	48.63	48.63						
Share based payment reserve	0.02	-	-	-	-						
Retained earnings	38.61	31.95	22.07	19.14	15.36						
Total equity	48.34	41.66	31.79	68.86	65.07						

Source: Company Accounts, Cordros Research

Disclosures

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