

Nigerian Breweries Plc.

Q4-16 – First Glance: PAT -30% y/y; Record Low EPS in 2016FY.

Late yesterday, NB released Q4-2016 and final results for 2016FY. **Not surprising, 2016FY EPS was at record low N3.58 (vs. our estimate of N3.35)**, as gross margin compression (528bps) and significant increase in finance costs more than offset single-digit revenue growth (7%) and a well-contained operating expenses. The Board has proposed a final dividend of N2.58, which if approved, equates to total dividend of N3.58, in addition to the N1.00 interim dividend paid late last year. **Surprising, management noted that at the Board Meeting held last week, the Directors further approved an option for qualifying shareholders to receive new ordinary shares (on terms and conditions as the Directors may determine) in the company instead of the final dividend.**

Q4-2016 was expectedly challenging for NB. PAT fell 30% y/y, rounding off the significant underperformance experienced in the second half of 2016 (where PAT fell by 44% vs. -11% in the first half). Although revenue grew at double-digit (15% y/y and more than our 3% y/y estimate) in the final three months, the pass-through to earnings was cut short by the 42% y/y expansion of COGs, in reflection of the 1100bps decline in gross margin (to 42%, in line with our estimate). **Heineken N.V. (NB's parent company) noted in the media release on its 2016 full year results that the tough market conditions experienced in Africa, Middle East and Eastern Europe was most notable in Nigeria.**

NB took phased price increases in 2016, including in the fourth quarter, to partially protect margins amid galloping cost inflation (imported and local) and increased share of low-margin brands in the sales volume mix. **The flat volume (as noted by Heineken) recorded in the second half was not unexpected, given that NB increased prices faster during the period (by cumulative 22%) compared to the first half (where single-digit volume growth was reported).**

Also in the final quarter, finance costs increased by 27% y/y to N3.16 billion, outpacing our N2 billion estimate. In its common practice, NB significantly reduced total outstanding debt to N17.87 billion at the end of the year, after the long term borrowing of N34.5 billion reported in the third quarter was wound down to N17 billion. The FX loss component of the 2016FY finance costs (+ 66% to N13.65 billion) was N7.55 billion, from N752 million in 2015FY.

Investors have reacted negatively to the broad consumer goods stocks in anticipation of poor 2016FY results. **Specifically, the share price of NB has declined 19.04% YTD based on yesterday's closing price of N119.81.**

We expect market conditions to remain tough over 2017, with NB's margins likely to suffer further (albeit marginal) dilution amid narrow revenue growth. That said, continued strong lid on operating expenses (+3% in 2016FY), and importantly, less disruptive FX losses (assuming no major devaluation is announced) could make the difference in NB's performance in the current financial year. **SELL.**

Analysts and investors conference call/webcast on the result will hold on Thursday, 2nd March, 2017 at 15.00 hrs Lagos/ 14.00 hrs London/ 09.00 hrs New York/16.00 hrs Johannesburg.

SELL

Target Price (N)*	97.68
Current Price (N)	119.81
Implied Return (%)	-18.48

Company Data

NSE Code	NB
Bloomberg Code	NB:NL
Reuters Code	NB.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	949.99
Free Float (%)	48.40

Ratios	Q4-2016	Q4-2015	2016FY
Gross margin	41.88%	52.88%	43.20%
Opex margin	25.70%	28.40%	26.53%
EBIT margin	16.42%	24.64%	16.86%
PAT margin	9.12%	15.04%	9.06%
RoAE	14.70%*	21.65%	16.81%
EPS (N)	1.05	1.50	3.58

*Under Review

Income Stat.(N' bn)	Q4-16	Q4-15	Q4 y/y	(Cordros est.)
Turnover	91.03	78.99	15.2%	81.68
Cost of Sales	-52.90	-37.22	42.1%	-47.37
Gross profit	38.12	41.77	-8.7%	34.31
Opex	-23.39	-22.43	4.3%	-23.28
Other income	0.21	0.13	69.1%	0.12
Operating income	14.94	19.46	-23.2%	11.15
Interest expenses	-3.16	-2.48	27.5%	-2.00
Interest income	0.09	-0.03	-374.4%	0.07
Profit before tax	11.88	16.95	-29.9%	9.22
Taxation	-3.57	-5.07	-29.6%	-2.77
Profit after tax	8.31	11.88	-30.09%	6.45

Financial Statement (N'billion).

Income Statement						Profitability Ratios				
	2013a	2014a	2015a	2016a	2017f		2013a	2014a	2015a	2016a
Revenue	268.61	266.37	293.91	313.74	315.41	Gross profit margin	50.8%	50.9%	48.5%	43.2%
Cost of sales	-132.14	-130.79	-151.44	-178.22	-182.16	EBITDA margin	33.8%	34.3%	30.8%	26.3%
Gross profit	136.48	135.58	142.46	135.52	133.26	PBT margin	23.2%	23.1%	18.5%	12.6%
Operating expenses	-69.38	-70.44	-80.72	-83.24	-85.97	Net profit margin	16.0%	16.0%	12.9%	9.1%
Other income	2.08	1.72	0.48	0.62	0.63	RoAE	41.9%	30.4%	22.4%	16.8%
Net finance cost	-6.93	-5.40	-7.71	-13.23	-3.68	RoAA	17.0%	14.4%	12.3%	11.9%
Profit before tax	62.24	61.46	54.51	39.67	44.23					
Tax	-19.16	-18.94	-16.46	-11.26	-13.57	Liquidity Ratios				
Profit after tax	43.08	42.52	38.06	28.42	30.66	Working capital (N'bn)	-55.0	-61.3	-82.6	-69.7
						Current ratio	0.5x	0.5x	0.4x	0.5x
Financial Position						Quick ratio	0.2x	0.2x	0.2x	0.3x
	2013a	2014a	2015a	2016a	2017f	Cash ratio	0.1x	0.0x	0.0x	0.1x
Property, plant and equipment	153.37	193.80	197.30	191.18	196.34	Efficiency Ratios				
Intangible assets and goodwill	53.56	97.97	100.61	99.48	101.36	Fixed assets turnover	1.8x	1.4x	1.5x	1.6x
Investments	0.15	0.15	0.15	0.15	0.15	Current assets turnover	5.9x	5.1x	5.1x	4.2x
Other receivables	0.16	0.19	0.32	0.62	0.71	Total assets turnover	1.1x	0.8x	0.8x	0.9x
Prepayments	0.24	0.19	0.35	1.15	0.92	Inventory turnover	0.2x	0.2x	0.2x	0.2x
Total non-current assets	207.47	292.30	298.74	292.59	299.48	Receivables turnover	0.1x	0.1x	0.1x	0.1x
Inventory	20.64	28.48	28.41	31.24	27.22	Payables turnover	0.5x	0.6x	0.6x	0.6x
Trade and other receivables	14.21	16.36	16.51	19.97	24.92	Days inventory outstanding	63	69	69	61
Prepayments	0.76	1.82	1.04	0.30	1.15	Days collection/sales outstanding	23	21	20	21
Deposits for imports	0.14	0.36	2.23	8.43	3.89	Days payable outstanding	0	1	46	2
Assets held for sale	0.00	0.00	4.18	2.45	4.18	Cash conversion cycle	86	89	43	81
Cash and cash equivalents	9.53	5.70	5.11	12.16	9.56	Investment Ratios				
Total current assets	45.29	52.72	57.48	74.56	70.91	Earnings per share (N)	5.7	5.6	4.8	3.6
Total Assets	252.76	345.02	356.22	367.15	370.39	Dividend per share (N)	4.5	4.8	4.8	3.6
Loans and borrowings	9.00	24.67	0.00	17.00	0.00	Payout	79.0%	84.5%	100.0%	99.9%
Employee benefits	9.27	10.74	11.90	10.10	13.16	Dividend yield	2.7%	3.8%	3.8%	3.0%
Deferred tax liabilities	21.83	27.83	31.91	29.88	35.73					
Total non-current liabilities	40.10	63.24	43.82	56.98	48.90					
Bank overdraft/Comm paper	0.00	0.23	19.21	0.87	19.44					
Current tax liabilities	24.09	22.95	20.22	19.02	26.64					
Dividend payable	6.38	7.56	12.40	12.68	13.01					
Loans and borrowings	0.00	0.00	3.00	0.00	3.00					
Trade and other payables	69.83	83.28	85.25	111.68	75.44					
Total current liabilities	100.30	114.03	140.08	144.26	137.52					
Total liabilities	140.40	177.26	183.90	201.23	186.42					
Total Equity	112.36	167.76	172.32	165.91	183.97					

Source: Company Accounts, Cordros Research

Disclosures.

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