Nigerian Breweries Plc.

Feedback from Conference Call and Routine Checks

We left the call with NB's management last week, with our view about the company's expected performance in 2017 unchanged. Hence, estimates for 2017, and beyond, are unchanged from the last update (see forecasts on page 2). The stock has accumulated 15% since attaining YtD low level, supported by the Q4-16 result (PAT of N8.31 billion) which recovered strongly from the underperformance in Q3-16 (PAT of N1.04 billion). **NB is currently trading on a 12M FPE of 25.5x and EV/EBITDA of 11.6x, at 45% and 35% premium to its SSA peers. While we continue to have strong conviction on the company, we believe that earnings outlook is modest and that the stock is overvalued. SELL.**

Feedback from our routine checks with dealers in key markets is that asides the fact that demand is usually stable during this period yearly, sales year-to-date, has been better than expected. Looking further into the year however, consensus view is that the beer market will likely remain challenging in 2017 from sales point of view. The biggest risk dealers foresee is pricing, the concern being that consumers have been stretched from last year's increases. Specific to NB, dealers worry about competition, considering that the company's prices are currently ahead of competitors' across most brands. From the conference call with NB, together with comments from HEINEKEN, we could sense a high degree of caution from the Group on the implications of further price increases. NB's management said market share was negatively affected by the price increases of September and November 2016. Unlike 2016 therefore, volume will be key to revenue in 2017 and we forecast modest growth of 4%.

Following the line of GUINNESS, management has hinted on plans to increase the contribution of exports to total revenue -- from the current 0.1% -- in 2017. Focus in the short term will be on neighbouring countries.

From costs perspective, the greatest risk NB, and indeed the broad consumer goods sector, faces, relates to the potential devaluation of the Naira. A 20% (likely case) leg-down in the naira from current value threatens another round of cost inflation which producers' price increases will certainly lag. But asides FX induced shocks (which is looking unlikely, in light of the central bank's recent supply actions), at current products prices, we expect NB's 2017 gross margin to be reflective of the Q4-16 level, suggesting marginally lower EBITDA. EBITDA should commence visible recovery from 2018 on a relatively stronger macro environment which should support improvement in mix. The company's strong inward-looking raw materials sourcing strategy remains a key efficiency advantage.

Amidst modest revenue growth prospect and highly vulnerable margins, we expect NB will continue to keep a tight lid on operating expenses as observed in 2016. Management said it derives significant savings from the merger with Consolidated Breweries.

Income Statement (N'bn)	Q3-16	Q4-16	Q1-17e	Q2-17e	Q3-17e	Q4-17e
Turnover	65.34	91.03	**80.01**	**86.36**	**67.75**	**90.97**
Cost of Sales	-41.92	-52.90	**-46.21**	**-49.88**	**-39.13**	**-52.54**
Gross profit	23.42	38.12	**33.80**	**36.49**	**28.62**	**38.43**
Operating expenses	-19.52	-23.39	**-21.81**	**-23.54**	**-18.47**	**-24.80**
Other income	0.12	0.21	**0.16**	**0.16**	**0.16**	**0.16**
Operating income	4.02	14.94	**12.16**	**13.11**	**10.32**	**13.80**
Interest Expenses	-1.84	-3.16	**-1.20**	**-1.20**	**-1.20**	**-1.20**
Interest income	0.07	0.09	**0.06**	**0.06**	**0.07**	**0.07**
Profit before tax	2.25	11.88	**11.02**	**11.98**	**9.19**	**12.67**
Taxation	-1.20	-3.57	**-3.33**	**-3.62**	**-2.77**	**-3.83**
Profit after tax	1.04	8.31	**7.70**	**8.36**	**6.42**	**8.85**

SELL

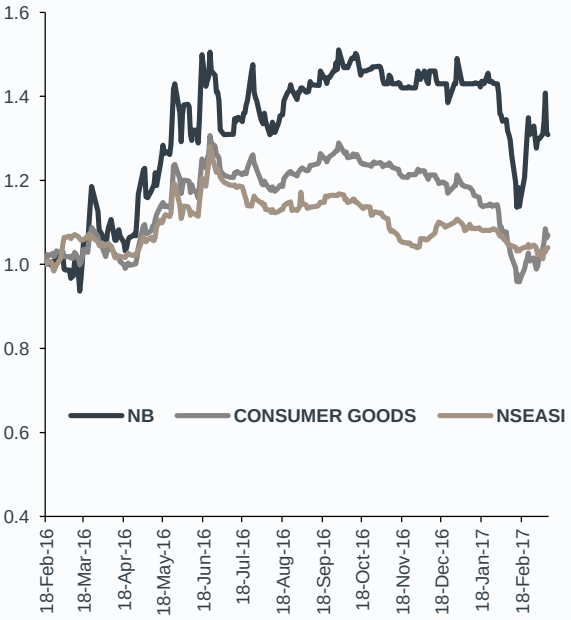
Target Price (N)	106.95
Current Price (N)	130.00
Implied Return (%)	-17.73

Company Data

NSE Code	NB
Bloomberg Code	NB:NL
Reuters Code	NB.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	1,030.78
Free Float (%)	47.32

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

Price movement (NB vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Financial Statement (N'billion).

Income Statement (N'bn)	2014a	2015a	2016a	2017f	2018f
Revenue	266.37	293.91	313.74	325.10	337.03
Cost of sales	-130.79	-151.44	-178.22	-187.75	-194.65
Gross profit	135.58	142.46	135.52	137.35	142.38
Operating expenses	-70.44	-80.72	-83.24	-88.61	-92.03
Other income	1.72	0.48	0.62	0.65	0.67
Net finance cost	-5.40	-7.71	-13.23	-4.53	-4.71
Profit before tax	61.46	54.51	39.67	44.85	46.31
Tax	-18.94	-16.46	-11.26	-13.77	-14.21
Profit after tax	42.52	38.06	28.42	31.09	32.10

Financial Position (N'bn)	2014a	2015a	2016a	2017f	2018f
Property, plant and equipment	193.80	197.30	191.18	197.81	204.77
Intangible assets and goodwill	97.97	100.61	99.48	102.95	106.60
Investments	0.15	0.15	0.15	0.15	0.15
Other recievables	0.19	0.32	0.62	0.70	0.79
Prepayments	0.19	0.35	1.15	1.25	1.35
Total non-current assets	***292.30***	***298.74***	***292.59***	***302.87***	***313.66***
Inventory	28.48	28.41	31.24	32.38	33.56
Trade and other receivables	16.36	16.51	19.97	20.72	21.50
Prepayments	1.82	1.04	0.30	0.37	0.44
Deposits for imports	0.36	2.23	8.43	8.78	9.14
Assets held for sale	0.00	4.18	2.45	12.16	12.16
Cash and cash equivalents	5.70	5.11	12.16	2.51	2.55
Total current assets	***52.72***	***57.48***	***74.56***	***76.90***	***79.35***
Total Assets	***345.02***	***356.22***	***367.15***	***379.77***	***393.01***
Loans and borrowings	24.67	0.00	17.00	17.18	17.07
Employee benefits	10.74	11.90	10.10	10.68	11.34
Deferred tax liabilities	27.83	31.91	29.88	31.52	33.41
Total non-current liabilities	***63.24***	***43.82***	***56.98***	***59.37***	***61.81***
Bank overdraft/Comm paper	0.23	19.21	0.87	0.60	0.67
Current tax liabilities	22.95	20.22	19.02	20.08	21.30
Dividend payable	7.56	12.40	12.68	13.39	14.21
Loans and borrowings	0.00	3.00	0.00	0.00	0.00
Trade and other payables	83.28	85.25	111.68	118.62	126.56
Total current liabilities	***114.03***	***140.08***	***144.26***	***152.69***	***162.74***
Total liabilities	***177.26***	***183.90***	***201.23***	***212.06***	***224.55***
Total Equity	**167.76**	**172.32**	**165.91**	**167.71**	**168.47**

Profitability Ratios	2014a	2015a	2016a	2017f	2018f
Gross profit margin	50.9%	48.5%	43.2%	42.2%	42.2%
EBITDA margin	34.3%	30.8%	26.3%	24.8%	24.8%
PBT margin	23.1%	18.5%	12.6%	13.8%	13.7%
Net profit margin	16.0%	12.9%	9.1%	9.6%	9.5%
RoAE	30.4%	22.4%	16.8%	18.6%	19.1%
RoAA	14.4%	12.3%	11.9%	11.5%	11.1%

Liquidity Ratios	2014a	2015a	2016a	2017f	2018f
Working capital (N'bn)	-61.3	-82.6	-69.7	-75.8	-83.4
Current ratio	0.5x	0.4x	0.5x	0.5x	0.5x
Quick ratio	0.2x	0.2x	0.3x	0.3x	0.3x
Cash ratio	0.0x	0.0x	0.1x	0.0x	0.0x

Efficiency Ratios	2014a	2015a	2016a	2017f	2018f
Fixed assets turnover	1.4x	1.5x	1.6x	1.6x	1.6x
Current assets turnover	5.1x	5.1x	4.2x	4.2x	4.2x
Total assets turnover	0.8x	0.8x	0.9x	0.9x	0.9x
Inventory turnover	0.2x	0.2x	0.2x	0.2x	0.2x
Receivables turnover	0.1x	0.1x	0.1x	0.1x	0.1x
Payables turnover	0.6x	0.6x	0.6x	0.6x	0.6x
Days inventory outstanding	69	69	61	62	62
Days collection/sales outstanding	21	20	21	23	23
Days payable outstanding	1	46	2	1	1
Cash conversion cycle	89	43	81	84	83

Investment Ratios	2014a	2015a	2016a	2017f	2018f
Earnings per share (N)	5.6	4.8	3.6	3.9	4.0
Dividend per share (N)	4.8	4.8	3.6	3.9	4.0
Payout	84.5%	100.0%	99.9%	100.0%	100.0%
Dividend yield	3.8%	3.8%	2.8%	3.0%	3.1%

Source: Company accounts, Cordros research estimates

Disclosures.

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